

CHANGES IN GRAIN FREIGHT RATES, 1930-1961

by

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## CHAPTER I

### THE HISTORY OF RAILROADS

#### Early Developments

The first railroad for general transportation services in the United States is generally considered to have been the Baltimore and Ohio, which was opened in 1830. The first American steam locomotive was tried out on the Baltimore and Ohio in 1830. It was called the "Tom Thumb" and was built by Peter Cooper of New York. The primary purpose of this early locomotive was to serve as a model to illustrate the practicability of locomotives.

Earlier railroads had been powered by horses or mules and later by stationary engines, especially in quarries and mines. These "tramways" as they were called were developed upon the principle that "the resistance offered by a wheeled vehicle when propelled over smooth rails is less than that of a vehicle on the best of ordinary roads."<sup>1</sup> However, the rapid development of rail transportation hinged upon the development of the steam locomotive. Most of these early railways were constructed for the purpose of carrying coal from mines or granite from quarries and were not intended to be general carriers of freight. The earliest of these tramways was developed in 1807 and several more were in operation by 1830.

Steam driven locomotives were first developed in England. In 1804 Richard Trevithick built a locomotive to run on rails which was able to draw a ten ton load of iron nine miles at the rate of five and one-half

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<sup>1</sup>David Philip Locklin, Economics of Transportation (Homewood, Illinois: Richard D. Irwin, Inc., 1960), p. 82.

miles per hour. Later in 1814 George Stephenson, also an Englishman, built a locomotive which was able to move thirty tons over the rails at a rate of four miles per hour. Stephenson then developed an improved engine which was used on the first railroad to be opened in England for the purpose of serving many shippers and carrying a wide variety of freight.<sup>2</sup> This road was opened in 1825 and was originally intended to be open to all persons who wished to place their wagons and horses or engines upon it, provided they paid the established tolls. However, the railroad company soon found it necessary to take over the entire operation of the line.

Various groups in the United States became interested in the development of the steam locomotive just prior to 1830 and several engines were imported from England and operated on short lines in the United States. The first American built engine began operation in 1830. These first locomotives were quite small and primitive, but once the engines were proved practicable, improvements were made quite rapidly.<sup>3</sup> The importance of these advancements in the development of railroad transportation cannot be overstated. Locklin states that "without the mechanical improvements on locomotives, as well as on rolling stock and track, the railroads could never have assumed the economic importance which they have attained."<sup>4</sup>

In 1833 there were 380 miles of railroad track in the United States. By 1916 the total railroad mileage had grown to 254,037. The peak in railway mileage was reached in 1916. Since that time, total mileage in

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<sup>2</sup>Stuart Daggett, Principles of Inland Transportation (New York: Harper and Brothers, 1955), p. 55.

<sup>3</sup>Locklin, Economics of Transportation, p. 83.

<sup>4</sup>ibid.



operation has declined steadily. The following table illustrates the total mileage in operation in the United States at ten year intervals from 1830 to 1959.

TABLE 1.--Comparison of railroad mileage in the U.S, 1830-1959<sup>a</sup>

Year	Mileage	Year	Mileage
1830	22	1900	193,346
1840	2,818	1910	240,293
1850	9,021	1920	252,845
1860	30,626	1930	249,052
1870	52,922	1940	233,670
1880	93,262	1950	223,779
1890	163,597	1959	217,565

<sup>a</sup>David Philip Locklin, Economics of Transportation (Homewood, Illinois: Richard D. Irwin, Inc., 1960), p. 84.

Much of the early railroad mileage was concentrated in the New England region. By 1845 there were 710 miles of railroads with terminals in Boston besides some outlying companies in Massachusetts and other New England states. The main purpose of these early railroads was to provide local transportation service between the larger cities and the surrounding country.<sup>5</sup>

The railroads later began to realize the potential of the longer hauls. The Baltimore and Ohio had been founded for the purpose of eventually connecting Baltimore with the expanding markets of the Ohio and

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<sup>5</sup>Daggett, Principles of Inland Transportation, p. 62.



Mississippi valleys. That purpose was accomplished in 1852 when the road was completed to Wheeling, West Virginia. The final section of the railroad to St. Louis was completed in 1857, thus providing efficient overland transportation from Baltimore westward to the Mississippi River. In 1853 a stretch of road was opened between Cleveland and Toledo which completed continuous rail connections from Chicago to Buffalo and New York City. This was the first New York to Chicago line. Several other railroads were completed during the decade from 1850 to 1860 which linked various eastern cities with the markets of the West.

After the Civil War the railroads continued to expand even more rapidly. In 1869 the first transcontinental line was completed when the Union Pacific from the East was joined with the Central Pacific from the West in Ogden, Utah. Railroad construction continued at a rapid pace all through the 70's except for a short interruption caused by the Panic of 1873, but the expansion in the 1880's surpassed all other periods of growth. More than 70,000 miles of railroad were constructed during the ten year period from 1880 to 1890 including another transcontinental route.<sup>6</sup> Much of the expansion that took place was in the Far West. The railroads were eager to connect the agricultural and mining resources of the West to the industrial centers of the East in order to take advantage of the transportation profits to be gained from the expanding trade between the two sections. Another reason for the rapid construction of railroads during this time period was the financial aid extended to the railroads by various city and state governments as well as by the federal government. These subsidies stimulated railroad building and brought

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<sup>6</sup> Locklin, Economics of Transportation, p. 85.

about a much more rapid expansion of the railway net than would otherwise have been possible. This was the very reason for which the subsidies were granted. The development of the railway system also aided in the more rapid settlement of the undeveloped West. The railroads continued their construction of new lines until 1916, though not at the same rapid pace of the 1880's. In that year railroads reached an all-time high in mileage of line in operation in the United States. From that time to the present, railroad mileage has declined steadily to 217,565.

### State Regulation

The railroad transport system in the United States is made up entirely of common carriers except for the limited facilities provided by manufacturing companies. "That is they stand ready to serve all who seek transportation on publicly announced terms at reasonable rates."<sup>7</sup> Railroads are really the only complete common carriers in the country because they carry only the goods of others. The other modes of transport in the United States, e.g. water, motor, and air, may be classified under different situations as common carriers, contract carriers, private carriers for hire, or private carriers for the firms which own them.

The main reasons for the common carrier status of railroads are the technological conditions of railroad transport. The technical features of railroads are such that particular lines must be operated as individual units. It is not possible to utilize individual motive units as in motor or water transport, because of the fixity of rail lines over which the vehicles move. It is not possible to open the railways to all

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<sup>7</sup>Dudley F. Pegrum, Transportation: Economics and Public Policy (Homewood, Illinois: Richard D. Irwin, Inc., 1963), p. 30.

who wish to drive on them. The specialized facilities and the large investment connected with railroad operation preclude over-all competition between rival suppliers of service.

The need for developing feasible routes between places led at the outset of railroad development to the granting of the right of eminent domain in acquiring rights of way and terminal facilities. The limited competition which resulted along with the granting of other privileges to railroads led to the idea that railroads were subject to the common law idea of common carriage.

The growth of railroads in the middle of the nineteenth century into the primary system of overland transportation led to comprehensive regulation of the industry.<sup>8</sup> The railroads had demonstrated their superiority over other forms of transportation, except for certain waterways, to such an extent that there was no good alternative to rail service. "Because the railroads had monopolies at intermediate points and by concerted action often limited competition at others, rates were frequently excessive; and there was discrimination against persons, points, and traffic where competition was not effective."<sup>9</sup> Therefore the original reason for regulation was to curb railroad monopoly power in the interest of small shippers, towns served by only one railroad, and other shipping interests injured by monopolistic practices.

Agitation for railroad regulation was one of the primary parts of the Granger movement of the late 1860's and 1870's. This movement was an agrarian revolt brought about by low farm prices which resulted in hard-

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<sup>8</sup>Ibid.

<sup>9</sup>James C. Nelson, Railroad Transportation and Public Policy (Washington D.C.: The Brookings Institution, 1959), p. 112.

ship among the agricultural population. The complaints against railroads were simply a part of the agitation of the Granger movement. The farmers complained that freight rates were too high in relation to the low price of farm products. They were angered at the gross discrimination practiced by railroads, especially the discrimination which railroads practiced in allowing preferential rates for some favored dealers and charging higher rates to others. The results of the Granger agitation were the Granger laws which were passed in Illinois, Iowa, Wisconsin, and Minnesota. The purpose of the laws was to provide for the regulation of railroads including the prescribing of maximum rates and the elimination of unlawful discrimination. The Granger laws did not remain in effect for very long, except in Illinois, but through various court tests they established the validity of railroad regulation. They also provided a foundation upon which later legislation could build. As Locklin put it: "The remarkable thing was that these laws, modified in detail, were sound enough to become the pattern for later legislation, both state and federal."<sup>10</sup>

After the courts ruled on the validity of railroad regulation, many of the states passed laws providing for such regulation. The states undertook to regulate railroad operation within the state boundaries which appeared to be within their authority. However, their power of regulation of interstate rates was challenged in 1886 in the Supreme Court in the Wabash, St. Louis, and Pacific Railway Company vs. Illinois. Rates had been prescribed by the Illinois regulatory agency on shipments from Gillman, Illinois to New York City in order to eliminate rate discrimination between that city and New York and Peoria and New York. The Supreme

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<sup>10</sup> Locklin, Economics of Transportation, p. 198.



Court said that the state had no jurisdiction in the matter since the shipments were interstate in character, and under the constitution the power to regulate interstate commerce had been delegated to the federal government. This court decision made the enactment of a federal regulatory law necessary. In 1887 such a law was passed.

### Federal Regulation

The Act to Regulate Commerce was approved by the President on February 4, 1887 and became effective on April 5, 1887. The Act was made applicable to all common carriers by railroad engaged in interstate and foreign commerce. This meant practically all railroads since even intrastate roads engage in some interstate commerce. The Act did not apply to common carriers wholly by water, but it included common carriers partly by rail and partly by water when the two were used under common control or management for continuous shipment. Daggett presents a good summary of the law.

1. The Act applied to transportation in interstate and foreign commerce.
2. The Act declared that:
  - a. All rates must be reasonable.
  - b. Undue preference to persons or to localities was forbidden.
  - c. It was unlawful to charge more for shorter than for longer hauls.<sup>11</sup>
  - d. Tariffs must be filed, published, and adhered to.
  - e. Railroads were to supply facilities for the interchange of traffic with connecting lines.
3. A commission was set up.
4. The Commission was given power to enforce the provisions of the Act. It could require reports from carriers, and had some jurisdiction over accounts.

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<sup>11</sup>This was the long-and-short-haul provision against railroad rate discrimination which had been one of the main issues prior to passage of the law and which has caused considerable controversy in recent years over railroads attempts to meet truck competition by selective rate cutting.

5. Commission orders were to be enforced through the courts.<sup>12</sup>

Locklin stated that the general results of the Act to Regulate Commerce were very good although several weaknesses did appear. There were several laws passed between 1887 and 1920 which attempted to correct those weaknesses. One of the most important of these was the Hepburn Act in 1906. The Act to Regulate Commerce had provided that all rates should be just and reasonable and those which were not just and reasonable were unlawful. The Interstate Commerce Commission had assumed that where rates were found unjust and unreasonable it had the power to prescribe reasonable rates. However, the Supreme Court stated in 1896 that the Commission was not given that power by the law. The Hepburn Act remedied this problem by granting the Interstate Commerce Commission the power to prescribe maximum rates. The law had several other provisions such as giving the Commission power to prescribe joint rates, increasing their power to control discrimination and making Commission orders binding on the carrier without the necessity of court action.<sup>13</sup>

In December, 1917, eight months after the United States had entered World War I, the railroads were taken over by the government. They were operated by the United States Railroad Administration during the war and until March 1, 1920. When the railroads were returned to private ownership a law was passed to aid in the transition and to improve United States regulation policy. The law which resulted was the Transportation Act of 1920. The Act extended the system of control over railroads, increased the Commission's power, and radically changed the policies of

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<sup>12</sup>Daggett, Principles of Inland Transportation, p. 615.

<sup>13</sup>Locklin, Economics of Transportation, pp. 213-217.

regulation which had been followed up to that time.

Regulation prior to World War I had been aimed primarily at enforcing competition within the industry and protecting the public against monopoly powers. Regulation had been restrictive in its approach. The Congress realized in the Act that conditions had changed since the first laws of regulation were passed in 1887 and railroads were no longer the financial giants that they had been. When the railroads were returned to private ownership there would be a need for rate increases in order to maintain efficient railroad transportation. The Interstate Commerce Commission was given the responsibility of providing railroads an opportunity to earn adequate income. The railroads were placed under "the fostering guardianship and control of the Commission."<sup>14</sup>

Therefore, the dominant purpose of the entire Transportation Act of 1920 "was the promotion of an adequate system of transportation for the country."<sup>15</sup> In order to accomplish this purpose the law provided a rule of rate making section for the Interstate Commerce Commission to follow. The section provided that the Interstate Commerce Commission should prescribe just and reasonable rates which would allow carriers under honest, efficient and economical management to earn a fair rate of return on the aggregate value of railway property. The Commission was left to determine from time to time what should be considered a fair rate of return, but the Congress did prescribe a rate of  $5\frac{1}{2}$  per cent for the first two years that the section was in force. This section applied to carriers as a whole not on individual railroads so that there was to be a fair rate

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<sup>14</sup>Ibid., p. 228.

<sup>15</sup>Ibid.



of return on the aggregate property of all railroads. Although the wording of this section has been changed, it still remains a very important part of the Interstate Commerce Act. Another significant part of the Act was the provision which empowered the Commission to prescribe minimum rates. The delegation of this power is evidence of a change in the policy of enforced competition. This power was to be used in preventing rate wars and the undermining of the rate level prescribed under the rule of rate making. There were other provisions in the Act of 1920 but they are too numerous to mention here. Suffice it to say that they generally extended the powers of the Interstate Commerce Commission in regulating railroads.

After the amendments of 1920 the Interstate Commerce Act remained unmodified for several years. However, changing conditions and the partial failure of the Transportation Act to work out as Congress had planned, necessitated the various amendments which have been enacted since 1920. The following is a list of legislation affecting railroad regulation since 1920 in chronological order: (1) the Hoch-Smith Resolution, (2) the Railway Labor Act, (3) Section 77 of the Bankruptcy Act, (4) the Emergency Transportation Act of 1933, (5) the Transportation Act of 1940, (6) the Railroad Modification Act, (7) the Reed-Bulwinkle Act, and (8) the Transportation Act of 1958.<sup>16</sup> Though all of these amendments and acts had certain significant applications, only the most important will be discussed here to point out the general development of railroad regulation.

The Hoch-Smith Resolution was passed in 1925 and was introduced and backed by the farm bloc. Congress anticipated that this legislation

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<sup>16</sup>ibid., p. 239

would relieve the agricultural distress which existed. There is no doubt that the purpose of the law was to induce the Interstate Commerce Commission to prescribe the lowest possible lawful rates on the products of agriculture affected by the depression. The provisions of the law were:

(1) The Interstate Commerce Commission was directed in prescribing freight rates to take into consideration "the conditions which at any given time prevail in our several industries . . . in so far as it is legally possible to do so, to the end that commodities may freely move."<sup>17</sup> (2) The Commission was directed to make a thorough investigation of the rate structure and remove any unreasonable, unjust and unduly discriminatory rates that existed. (3) In making rate adjustments the Interstate Commerce Commission was to consider three factors: (a) general and comparative market value of the various commodities as indicated over a reasonable number of years, (b) a natural and proper development of the country in general, (c) the maintenance of an adequate system of transportation. (4) The Commission, in view of the existing depression in agriculture, was directed to establish on agriculture products the lowest possible lawful rates compatible with the maintenance of an adequate transportation system.

The Grain Rate Structure Investigation by the Interstate Commerce Commission, which will be discussed later, was a direct result of this Resolution.

The immediate purpose of the Emergency Transportation Act of 1933 was to deal with the crisis with which railroads were faced due to the depression. The provisions of the law which dealt with the railroad

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<sup>17</sup>Ibid.

emergency were temporary in nature. The other provisions of the law were permanent amendments to the Interstate Commerce Act. The most important of those provisions was the amendment to the rule of rate making. The Congress repealed the old rule of rate making and substituted a new rule which stated that in prescribing rates the Interstate Commerce Commission should consider the following: the effects of rates on the movement of traffic, the need in the public interest of adequate and efficient transportation service at the lowest possible cost, and the need of carrier revenues sufficient to provide such service under honest, efficient, and economical management.<sup>18</sup> This new rule of rate making left out the portion stating that railroads should have revenues sufficient to provide a fair rate of return on aggregate property. The Commission was directed instead to prescribe rates which would allow carriers to provide adequate and efficient transportation service. The Commission was also directed to take into consideration the effect of rates on the movement of traffic.

The most important part of the Transportation Act of 1940 was the declaration of a national transportation policy. Congress apparently felt that it was necessary to provide the Interstate Commerce Commission with a general expression of policy which it expected them to follow in regulating the various modes of transportation which had come under the authority of the Commission. The reason for this was the passage of the Motor Carrier Act in 1935 which brought motor carriers under Interstate Commerce Commission jurisdiction and the Act of 1940 which included water carriers under their jurisdiction.

The declaration of policy provided the Commission with the general considerations which were to govern their regulation of the different

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<sup>18</sup>Pegrum, Transportation: Economics and Public Policy, p. 320.

agencies subject to Interstate Commerce Commission jurisdiction. The declaration of policy was a recognition on the part of Congress that henceforth successful regulation would have to consider the problems of competition between the different modes of transportation. The declaration of policy reads as follows:

It is hereby declared to be the national transportation policy of the Congress to provide for fair and impartial regulation of all modes of transportation subject to the provisions of the Act, so administered as to recognize and preserve the inherent advantages of each; to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers; to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices; to cooperate with the several States and the duly authorized officials thereof, and to encourage fair wages and equitable working conditions; . . . all to the end of developing, coordinating, and preserving a national transportation system by water, highway, and rail, as well as other means, adequate to meet the needs of the commerce of the United States, of the Postal Service, and of the national defense. All of the provisions of this Act shall be administered and enforced with a view to carrying out the above declaration of policy.<sup>19</sup>

The Transportation Act of 1958 was passed after extensive hearings in both the House and Senate on the deteriorating railroad situation. In addition to providing aid to financially distressed railroads the Act dealt with specific difficulties which the railroads had encountered in their efforts to adjust rates and services to new conditions brought about by the growth of competitive modes of transportation. The rule of rate making in Section 159 was again amended, this time by the addition of a paragraph as follows:

In a proceeding involving competition between carriers of different modes of transportation subject to this Act, the Commission, in determining whether a rate is lower than a

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<sup>19</sup>Locklin, Economics of Transportation, p. 250.

reasonable minimum rate, shall consider the facts and circumstances attending the movement of the traffic by the carrier or carriers to which the rate is applicable. Rates of a carrier shall not be held up to a particular level to protect the traffic of any other mode of transportation, giving due consideration to the objectives of the national transportation policy declared in this Act.<sup>20</sup>

The purpose of this addition was to prevent the Commission from holding up the rates of one mode of transportation in order to protect the rates of another mode.

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<sup>20</sup>Pegrum, Transportation: Economics and Public Safety, p. 326.



## CHAPTER II

## THE GRAIN RATE STRUCTURE

## Historical Development

The movement of grain has been historically determined by the location of the terminal markets which serve as storing and processing centers and by the natural flow of goods east and west. As the country developed it became economical for grain producers to locate in the more remote areas and on less intensively cultivated land. Before 1850, when water borne carriers were the primary means of transportation, most of the terminal markets were located on an east-west line along the Ohio and Potomac Rivers. The primary markets were St. Louis, Cincinnati, Wheeling, Philadelphia, and Baltimore. Through these markets the surplus grain and hog products moved to the East and South. Wheat and livestock products also moved from Chicago over the Great Lakes to Buffalo and eastern consuming points. When the railroads pushed on west of the Mississippi River the basic east-west flow of commodities continued but the line of important terminal markets shifted to a north-south axis, taking on the pattern they have today. The principal terminal markets along the north-south axis are: Minneapolis, Chicago, Omaha, Denver, St. Louis, Kansas City, and Fort Worth.<sup>21</sup>

The development of the Plains states as a surplus grain producing area paralleled the developments of these markets. The climate, soils, and location of these states made them well suited for the production of

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<sup>21</sup>United States Department of Agriculture, Yearbook of Agriculture, 1954: Marketing (Washington D.C.: United States Government Printing Office, 1954), p. 37.

wheat and other grains. The primary surplus wheat producing region stretches northward from the Panhandle of Texas and Oklahoma to North Dakota and Minnesota. The earlier movements of grain were from these states eastward through the terminal markets to the East. Therefore, the early structure of grain rates was based primarily on the movement of wheat into the various terminal markets and thence on to the East.

The railroads established rates on the movement of grain from a particular point on their line to a terminal market and certain rates on grain from the terminal market to the various consuming points in the East. The main characteristic of the resulting rate structure was that railroads published flat rates on grain products into the terminal markets, where shippers were granted transit privileges, and then the grain moved on to the eastern markets at a proportional rate or on a transit balance.

A transit balance was the difference between an established overhead through rate from the originating point to the final destination and the flat rate at which the shipment was billed into the terminal market. This principle for determining grain rates is known as the rate break principle and will be discussed more fully in the following section in connection with the grain freight rate investigation by the Interstate Commerce Commission.

#### The Grain Rate Structure Investigation

With the passage of the Hoch-Smith Resolution in 1925, the Congress directed the Interstate Commerce Commission to investigate the railroad rate structure to determine the reasonableness of rates on agricultural commodities. The study on grain and grain products was known as the



Rate Structure Investigation, Part VII and was concerned with rates in the western district and for export. Although the investigation included all grain rates, most of the discussion centered around wheat since wheat shipments make up a large portion of the grain transported by railroads. The hearings in this case were conducted in the summer of 1928 and were completed in September of that year. The Commission did not make its final decision until 1930.

The following is a discussion and summary of the Interstate Commerce Commission report presented in the case. The main issues in the case are covered as well as the final decisions of the Commission. However, the summary is necessarily sketchy since, as the Commission stated, the case embraced "three score and more of major issues" and it involved more than seventy thousand pages of testimony and briefs.<sup>22</sup>

The Commission stated at the outset that the question presented in this case is whether, under existing conditions, "the rates on grain and grain products throughout the western district are reasonable and just and are properly related to each other and to the rates on other traffic."<sup>23</sup> The Interstate Commerce Commission further pointed out that the question embraces comparisons of distance, transportation conditions, and ton-mile earnings and car-mile earnings on grain in relation to other commodities as well as the question regarding whether the general rate level is sufficient to provide the carriers with a fair rate of return as contemplated by law. The Commission stated that the fair rate of return as construed

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<sup>22</sup>United States, Interstate Commerce Commission, Reports, "Rate Structure Investigation, Part VII," CLXIV (1931), 697.

<sup>23</sup>Ibid., p. 627.

in Section 15a of the Interstate Commerce Act was 5.75%. This is the rate which is to be permitted but not necessarily guaranteed on the fair value of the property which is devoluted to the transportation service.

The hearing then considered the rates of return on all railroads in the western district for the period 1921-1928. The railroads showed a steady increase from 3.12% in 1921 to 4.35% in 1928.

The Commission also considered evidence indicating the importance of grain and grain products for carriers in the western district. Grain and grain products revenue provided 12.1% of total revenues for carriers in the western district in 1924. For the calendar year 1927 grain and grain products constituted 11.6% of tons originated and 10.12% of tons carried for all class I railroads in the western district. Therefore, it is concluded that grain and grain products are of considerable importance to railroads in the western district.

In order to have a general understanding of the grain marketing structure of the country, the Commission reviewed the production and flow of wheat in the United States. The Report stated that the average production of wheat in the United States is 800 million bushels of which 200 million are exported. The surplus of United States wheat production is west of the Missouri River. The harvest of this wheat crop begins in May in the winter wheat belt of Texas, Oklahoma, Kansas, Colorado, and Southern Nebraska and extends through October in the spring wheat region—Montana, the Dakotas, and Minnesota. The heaviest movement of wheat occurs in the three month period after harvest. Most of the wheat moves to market and milling points such as Denver, Wichita, and Fort Worth and to the primary markets such as Kansas City, Duluth, Minneapolis, Sioux City, Omaha, St. Louis and Chicago. Wheat received at these markets may

be promptly milled or resold or possibly stored to be sold later. The general flow of wheat and wheat products is to the East. However, much grain, especially for export flows southward to the gulf and a large percentage of the wheat produced in Washington and Oregon goes to exporters and millers in Seattle, Portland, Tacoma and other Puget Sound Ports. For the wheat that moves east there are three primary routes. The wheat from the northern tier of states moves through Duluth and Minneapolis and thence over the Great Lakes to various eastern points. During the time of the year when shipping is closed on the lakes the wheat moves through Chicago over rails and then eastward. The wheat produced in the central states such as Kansas and Colorado moves through the Missouri River gateways and Chicago or St. Louis to the East. It is widespread practice by railroads to allow grain shippers to stop carloads of grain at various market and milling points for storage or processing before continuing on to the final destination. There is no extra charge for this service. It is referred to as a transit privilege and is used extensively by many shippers.

There are three different methods of determining rates to and from primary markets. They are: (1) a combination of flat rates in and out of the market, (2) a combination of flat rates in and proportional rates out, and (3) overhead rates with transit. The Interstate Commerce Commission gave the definition of these terms as used in the investigation. A flat rate is essentially either a local rate of a single carrier or a joint rate of two or more carriers and it is not dependent for application on any previous shipment of the grain or any subsequent shipment.

A proportional rate is a local or joint rate which is dependent for its application on (1) a previous transportation by railroad to the point

from which the proportional rate applies, (2) a subsequent transportation from the point to which the proportional rate applies, or (3) both of these conditions. It is supposed to be a part of a through rate and is therefore, usually lower than the flat rate between the same two points.

An ex lake proportional is a rate applicable at lower lake ports on shipments which have previously been transported across the Great Lakes.

An overhead rate with transit is a rate under which shipments may be stopped at an intermediate point for any recognized transit purpose. In the absence of such a rate the charge would be the lowest combination of applicable rates to and from the transit point.

Sometimes overhead through rates are published through primary markets on a basis other than the flat rate to the market and the proportional rate beyond. If these rates were higher than the combination rates they would violate the long-and-short-haul provision of Section Four of the Interstate Commerce Act, so they are usually the same or lower than combination rates. If they are lower than the overhead one factor rate would take precedence over the combination rates due to an earlier ruling by the Interstate Commerce Commission.

All shipments to markets are billed in at flat rates. If the inbound freight bill was from a point which had an established overhead rate to the destination point then the outbound rate would be the balance between the total overhead rate and the inbound flat rate already paid. This is called the transit balance. If the inbound freight bill was from a point with no overhead rates then the outbound shipment would be billed at the proportional rate.



One of the main issues in this case revolved around the problem of using proportional rates or overhead rates with transit. The proportional rates had apparently fallen into disuse for a time preceding this hearing because railroads had established overhead rates which took precedence. The use of these overhead rates had not disrupted in many cases the established rate break equalization of routes and market gateways but had the effect of decreasing the importance of the rate break principle.

The primary objection to the rate break seemed to be that the proportional rate could not always be a reasonable addition to all inbound freight rates. This is especially true of the long-haul inbound traffic. In other words if the inbound flat rates for long hauls were continued on to the point of destination at the normal rate of progression used on a distance scale they would be lower than the flat rate to the primary market plus the proportional rate to the final destination. Thus most of those objecting to the proportional rate were long-haul shippers and various state commissions and they generally had no objection to rate breaks at principal markets if the volume of such rates did not exceed a reasonable overhead rate level.

On the other hand there were many witnesses who strongly favored the maintenance of the rate break principles. This group included some shippers and state commissions and representatives of the various primary markets. The principal markets such as Kansas City argued that the maintenance of rate breaks was important as a stimulator of the futures market, since the more grain that can move through a given market, the more representative the price will be.

The Interstate Commerce Commission stated that it was evident that the flat rate to the market and proportional rate beyond would preserve and substantially increase the railroad's revenue.

The Interstate Commerce Commission concluded that the dual system of rates on grain could not be continued. It also pointed out that the transit balance at primary markets due to overhead rates had always been a source of disorganization of rates. The Commission gave several examples of cases where this had been the problem. As stated in the Report: "The best interests not only of the primary markets, but of the producer, consumer, and carrier will be served by the fullest possible application of the rate break combinations through primary markets."<sup>24</sup>

The Commission therefore ordered that all overhead through rates less than the flat rate and proportional rate combinations as later prescribed in this report should be cancelled.

The Commission then turned its attention to the general level of grain rates. The Report stated that it was evident that some rates were too high while others were too low. Therefore, any horizontal treatment of rates would simply perpetuate those inconsistencies. The Commission then chose to deal with individual rate changes in order to correct the disparities which existed. The method used was to determine a reasonable through rate first and then where the rate went through a primary market to break the rate down into flat rates to the primary markets and proportional rates beyond. The resulting proportional rates were better proportioned to the inbound flat rates than under the previous adjustment.

The Commission then proceeded to prescribe the just rates to which they had referred. The rates which were prescribed were generally rate reductions although as the Report mentioned there were some rate increases in order to obtain a more equitable and harmonious rate structure for

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<sup>24</sup>Ibid., p. 645.

grain and grain products. The Commission listed the prescribed rates from various production points to primary markets. A scale of rates was also provided which was to be applied on various interior movements for which specific rates were not provided. The prescribed rates covered the movements of grain from the most important production points in all the surplus grain states in the western district to the primary market. The Commission ruled that the rates on wheat and coarse grains would be the same. The following table shows the rates effective prior to the grain rate investigation as well as the rates prescribed by the Commission in that case for shipments from various points in Kansas to Kansas City and Chicago.

These rate changes are indicative of the changes prescribed by the Commission in the western district. The Interstate Commerce Commission Report pointed out that the commissioners in making their decision had considered all of the mandates of the law affecting rate relations, the natural development of the country as a whole, and the maintenance of an adequate transportation system. In emphasizing the importance of rate relations they said:

As previously stated, the greater part of the evidence and the chief contentions centered around wheat. In some respects, in a traffic sense, wheat is the most liquid commodity known in transportation. The classes or grades of wheat have long been standardized and, commercially, wheat approximates currency. The rate structure should permit it to move freely in all directions. Rates on wheat are closely related to one another, and even a slight change in one will ordinarily affect the movement governed by the others. In fact, generally speaking, all the rates on wheat may be likened to a huge blanket covering the entire country, and a pull on any part of this blanket to the extent of 1 or 2 cents, sometimes even a fraction of a cent, will be felt in every other part.<sup>25</sup>

The prescribed rates went into effect on August 1, 1931.

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<sup>25</sup>ibid., p. 697.



TABLE 2.--Rates on grain from selected points in Kansas to Kansas City and Chicago  
in cents per 100 pounds, 1929 and 1931<sup>a</sup>

Kansas to Chicago							
	Rates on Wheat 1929	Rates on Coarse Grains 1929	Prescribed Rates on Wheat and Coarse Grains 1931		Rates on Wheat 1929	Rates on Coarse Grains 1929	Prescribed Rates on Wheat and Coarse Grains 1931
Olathe	27	24.5	24	Great Bend	37	33.5	32
Ottawa	29.5	26.5	25.5	Kinsley	37	33.5	32
Fort Scott	29.5	26.5	26	Dodge City	38	34.5	33
Oswego	31	28	28	Wakeeney	37.5	34	33
Eureka	34.5	31.5	28.5	Satanta	38.5	35	33
Wichita	35.5	32.5	30	Grainfield	38	34.5	33
Beloit	35.5	32.5	30	Syracuse	38	34.5	37
Salina	35.5	32.5	30	Goodland	38	34.5	37
Concordia	35	32	30	Elkhart	39	35.5	37
Hutchinson	36.5	33.5	31	Kansas City (local)	23.5	21	24
Ellsworth	36.5	33.5	31				

TABLE 2.--Continued

	Rates on Wheat 1929	Rates on Coarse Grains 1929	Prescribed Rates on Wheat and Coarse Grains 1931		Rates on Wheat 1929	Rates on Coarse Grains 1929	Prescribed Rates on Wheat and Coarse Grains 1931
Olathe	9.5	8.5	7	Ellsworth	19	17	16
Ottawa	12	11	8.5	Great Bend	19.5	17.5	17
Fort Scott	12	11	11	Kinsley	19.5	17.5	17
Oswego	13.5	11.5	13	Dodge City	20.5	18.5	18
Eureka	17	15.5	13.5	Makeeney	20	18	18
Wichita	18	16	15	Satanta	21	19	18
Beloit	18	16	15	Grainfield	20.5	18.5	18
Salina	18	16	15	Syracuse	20.5	18.5	22
Concordia	17.5	15.5	15	Goodland	20.5	18.5	22
Hutchinson	19	17	16	Elkhart	21.5	19.5	22

<sup>a</sup>United States, Interstate Commerce Commission, Reports, "Rate Structure Investigation, Part VII," CLXIV (1931), 804.

## Further Revisions

Prior to the grain rate investigation in 1928 the general economic outlook had been good. Railroad earnings climbed steadily from 1921 through 1928. The country had been in a boom period. However, during the time while the Interstate Commerce Commission was considering the evidence the trend completely reversed itself. By the time the Commission reached a final decision on the grain rate structure a depression was well on its way. By the end of 1930 the railroads were hard hit by drastic reductions in traffic and resulting low revenues. They felt they were being hit while down by the reduction in grain rates which was to go into effect in 1931. Their return in investment had already been pared to about 3% and the rate reduction was sure to lower the rate of return even more.<sup>26</sup>

The railroads therefore, petitioned the Interstate Commerce Commission for further hearings to bring the record up to date and to show that economic conditions were such, as reflected by national depression, that the original order by the Commission was unresponsive to current conditions. The Interstate Commerce Commission denied the request and the railroads took it to the Supreme Court. On February 20, 1932, the tariffs reflecting the revised grain rates were cancelled by a Supreme Court decision requiring vacation of the order due to the denial by the Interstate Commerce Commission of petitions for further hearings.

Thus, the Interstate Commerce Commission reopened the hearings. Much of the testimony heard in this case was a restatement of earlier testimony. The railroads presented evidence to indicate the effects of

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<sup>26</sup>"Grain Rate Issue Widens Rift Between Railroads and ICC," Business Week, October 22, 1930, p. 14.

depression on railroad earnings. The shippers and other protestants argued that all industries had been equally affected and the railroads should bear their share of the burden of depression.

The western railroads presented evidence which showed that their rate of return on investment dropped from 5.06% in 1929 to 3.55% in 1930 to 2.24% in 1931 and finally to .91% in 1932. The railroads emphasized the inroads of truck transportation into their traffic and argued that the rate reductions and depression not only endangered their revenues but interfered with their attempts to meet this competition in the most effective way by applying reductions where competition was most prevalent and maintaining or increasing rates in less competitive areas.

On the other hand evidence was presented that indicated that grain producers had also been hard hit by depression. Their prices received had been declining steadily from the time of the earlier hearings until the summer of 1933 when they recovered slightly, but they were still drastically low. Freight costs went from 9.8% of the value of grain in 1925 to 40% of the value of grain in March, 1933.

The Interstate Commerce Commission in giving its decision reaffirmed its earlier decision that grain rates should be determined exclusively by the application of rate break combinations. The Commission also stated that there had been some criticism of the interior scale which had been prescribed for determining rates between points other than those with established or prescribed key-point rates. The Commission conceded that the real necessity for the scale was doubtful since rates are generally available for shipments in the direction of the normal flow of grain traffic. Therefore, the prescription of an interior scale was rescinded in this case.

The Commission asserted that it was clear that the reductions granted in all but the western trunk line territory of the western district were too drastic in view of the existing conditions and upon comparison of rate levels in the respective rate territories. The rates which were, therefore, prescribed by the Interstate Commerce Commission were somewhat lower than the rates had been prior to the earlier hearing, but were a little higher than the rates prescribed in that case. The following table shows the rates prescribed along with previous rates from points in Kansas to Chicago and Kansas City.

These rates are again indicative of the general level of rates prescribed for all of the western district, except the western trunk line territory where the rates prescribed earlier were not changed. The Commission further stipulated in its findings that rates from points other than those prescribed by the Commission should be constructed by railroads to indicate a reasonable relation to the rates from neighboring key points prescribed in the Interstate Commerce Commission Report.

TABLE 3.---Revised rates on grain from selected points in Kansas to Kansas City and Chicago in cents per 100 pounds, 1929, 1931, 1935<sup>a</sup>

From	Kansas to Kansas City					Kansas to Chicago				
	Rates on Wheat 1929	Rates on Coarse Grains 1929	Rates on Wheat and Coarse Grains 1931	Prescribed Rates on Wheat and Coarse Grains 1935	Rates on Wheat 1929	Rates on Coarse Grains 1929	Rates on Wheat and Coarse Grains 1931	Prescribed Rates on Wheat and Coarse Grains 1935		
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents		
Beloit	18	16	15	16	35.5	32.5	30	31		
Concordia	17.5	15.5	15	15.5	35	32	30	30.5		
Dodge City	20.5	18.5	18.5	20	38	34.5	33.5	35		
Elkhart	21.5	19.5	22	24	39	35.5	37	39		
Ellsworth	19	17	16	17	36.5	33.5	31	32		
Goodland	20.5	18.5	22	22	38	34.5	37	37		
Grainfield	20.5	18.5	18.5	20	38	34.5	33.5	35		
Great Bend	19.5	17.5	17	18	37	33.5	32	33		
Hutchinson	19	17	16	17	36.5	33.5	31	32		
Kinsley	19.5	17.5	17	18	37	33.5	32	33		



TABLE 3.--Continued

From	Kansas to Kansas City				Kansas to Chicago			
	Rates on Wheat 1929	Rates on Coarse Grains 1929	Rates on Wheat and Coarse Grains 1931	Prescribed Rates on Wheat and Coarse Grains 1935	Rates on Wheat 1929	Rates on Coarse Grains 1929	Rates on Wheat and Coarse Grains 1931	Prescribed Rates on Wheat and Coarse Grains 1935
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
Oswego	13.5	11.5	13	11.5	31	28	28	26.5
Ottawa	12	11	10	10	29.5	26.5	25	25
Salina	18	16	15	16	35.5	32.5	30	31
Satanta	21	19	18.5	21	38.5	35	33.5	36
Syracuse	20.5	18.5	22	22	38	34.5	37	37
Wakeeney	20	18	18.5	19	37.5	34	33.5	34
Wichita	18	16	15	16	35.5	32.5	30	31

<sup>a</sup>United States, Interstate Commerce Commission, Reports, "Rate Structure Investigation, Part VII," CCV (1934), 497.



## CHAPTER III

## CHANGES IN GRAIN RATES, 1930-1960

## Pre-World War II Increases

During the ten year period from 1920 to 1929 railroads experienced extremely favorable operating conditions. They had been granted large rate increases when returned to private ownership in 1920. This coupled with the increased economic activity and resulting increased transportation demands of the twenties provided railroads with large operating revenues. As a result, the railroads were able to invest large sums in new equipment and other improvements and still increase their corporate surplus by about 76% during the period.<sup>27</sup>

However, by the end of 1930 the railroads were feeling the effects of the depression. Traffic and earnings fell off sharply in 1930. The volume of traffic continued to decline in the early part of 1931 and in June of that year the railroads petitioned the Interstate Commerce Commission for the authority to increase their rates by 15% in order to deal with the problem of declining revenues. The Interstate Commerce Commission considered the increase in The Fifteen Per Cent Case, 1931. The railroads stated that their rate of return in 1930 had fallen to 3.54% and based on the first six months of operation, the estimated rate of return for 1931 was 2.25%. They argued that this low rate of return would endanger their credit. They also argued that since they were a publicly regulated industry they were not able to enjoy prosperous times

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<sup>27</sup>United States, Interstate Commerce Commission, Reports, "The Fifteen Per Cent Case, 1931," CLXXVIII (1932), 567.

to the same extent as other industries in order to make up for lean years such as 1930.

The protestants in the case included just about every branch of agriculture as well as industry. They expressed the opinion that an increase in rates would be harmful to the nation and to railroads. They argued that all industries were equally affected by depression. In fact, most industries, and especially agriculture, had experienced a violent drop in prices received for their products while railroads had experienced no such decline in the price of their services. The protestants also argued that an increase in freight rates would allow the railroad's competitors to take over still more of their traffic.

The findings of the Commission were that no general increase should be granted at that time. Specific emergency increases were authorized on a few commodities for a limited time but these did not affect most agricultural products. In its conclusion the Commission stated:

The facts set forth above show beyond question that there are elements of plain peril to the railroads in such an increase in freight rates as they propose at the present time. The chief dangers are (1) that at a time when transportation costs are of vital consequence to every industry it will stimulate new competitive forces already rapidly developing, (2) that it will alienate or impair the friendly feeling toward the railroads on the part of the people of the country which is essential to adequate legislation for their protection and the proper regulation of all forms of transportation in the public interest, and (3) that it will disturb the business conditions of an already shell-shocked industry, and accelerate the tendency toward a localization of production. It should be borne in mind that traffic once lost to a competitive agency is far more difficult to regain than it is to hold before it is lost.<sup>28</sup>

The Commission recommended slight rate increases in the industries best able to stand it as a temporary measure of relief for railroads.

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<sup>28</sup>Ibid., p. 575.

As the depression deepened, it became apparent to most shippers that freight rates were well out of line with commodity prices. At the end of 1932 commodity prices had fallen to a level 17% below the pre-war level while freight rates were about 50% above pre-war levels.<sup>29</sup> An article in Business Week in 1933 stated that the public had made up its mind that "freight rates are too high and must come down."<sup>30</sup> Although railroad revenues were quite low due to decreased traffic, the various shipping interests felt that rates should be reduced to match, at least to some extent, the reduction in commodity prices. Therefore, on January 25, 1933 several farm organizations representing farmers and other shipping interests filed a petition with the Interstate Commerce Commission asking for an investigation of the general rate level and requesting that the Commission enter an order reducing freight rates. The shippers argued that the disparity between freight rates and commodity prices was hindering the free movement of traffic and retarding economic recovery. The railroads asserted that their revenues were already drastically low and any reduction in rates would be hazardous.

The Commission stated in the findings of the case that railroads had been losing increased amounts of traffic to competing carriers and had been forced in many cases to reduce rates drastically to meet that competition. In the opinion of the Commission a general rate reduction would not aid railroads in that competition nor would it bring about an increase in the volume of business or cause increased consumption in the economy. Therefore, no rate reductions were ordered.

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<sup>29</sup>United States, Interstate Commerce Commission, Reports, "The Fifteen Per Cent Case, 1931," CXCI (1933), 377.

<sup>30</sup>"Freight Rates Must Come Down," Business Week, February 8, 1933, p. 13.

The Commission emphasized again the inroads of truck transportation. It stated that in 1931 it was thought that truck competition would be primarily on short hauls and on less than carload freight and not of any great consequence. But by 1933, both of these beliefs had been disproved by trucks taking over vast quantities of less than carload freight and moving it long distances. Before truck competition, railroads had been able to charge what the traffic would bear on different commodities, with low grade commodities having low rates and high grade commodities having high rates. A large part of railroad earnings were from high grade commodities. But with increased competition, much of the high grade traffic was being handled by other carriers or by railroads at little or no profit. The Commission stated that adequate and efficient railway transportation service "cannot be maintained if the cream of railroads traffic is taken by competitors and if we require reductions on the traffic not subject to competition."<sup>31</sup> The Commission asserted that if the carriers could not pay their way and make a reasonable profit there was no incentive for continuing the service. However, the opinion of the Commission was that "the country is not ready to abandon its railroads"<sup>32</sup> and therefore, the duty of the Commission was to follow the course which presented the greatest promise in maintaining the efficient railroad mileage of the country. The opinion of the Commission was that general rate reductions would tend to defeat that end.

In August of 1934, the railroads petitioned the Interstate Commerce Commission for authority to increase their rates by 10%, subject to cer-

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<sup>31</sup>United States, Interstate Commerce Commission, Reports, "General Rate Level Investigation, 1933," CXCV (1933), 71.

<sup>32</sup>Ibid., p. 71.



tain maxima and exceptions. Some commodities would be subject to a flat increase while others would be exempt from increase. In other instances increased rates were proposed only for longer hauls which were not subject to truck competition. According to an editorial in Business Week these rate increases would only amount to about a 6.8% increase by the time the maxima and exceptions were considered. The article stated that this increase would be "no great tax" on business and that the resulting revenue would allow railroads to reduce their deficit below the \$54 million level forecasted for 1934.<sup>33</sup>

Farmers and other shippers protested the increase on the same basis as in previous cases since the beginning of the depression. They pointed out that the disparity between commodity prices and freight rates still existed and any rate increases would force shippers to turn to competing modes of transportation. The Secretary of Agriculture, at the request of the Commission, presented a report on the agricultural situation. After considering the report, the Commission was forced to the conclusion as they were in 1931 that the agricultural industry was in worse shape than railroads. Therefore, in granting temporary increases of 7% on carload freight and 10% on less than carload freight, the Commission excluded agricultural commodities.

In its discussion of the case, the Commission once again emphasized the change that was coming over the railroad industry due to truck competition. It pointed out "that a railroad rate structure which was well adapted to the conditions of fifteen or twenty years ago is not necessar-

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<sup>33</sup>"Rail Rates," Business Week, September 1, 1934, p. 10.



ily well adapted to the conditions which prevail today."<sup>34</sup> The Commission continued to state that the emergency increases granted in this case were a dangerous and inadequate method of dealing with these problems. In fact, in many instances, more might be gained by reducing rates than by increasing them. The Commission suggested that railroads should alter their equipment and services in every feasible way in order to lower operating costs. The Commission also suggested that railroads should make detailed studies of the rate structure "for the purpose of discovering where it repels or impedes traffic, where reductions can be made which will, by their effect on traffic, increase aggregate revenues, and where increases are possible which industry and traffic can bear without harm."<sup>35</sup> The increased rates became effective on April 18, 1935. The increase granted by the Commission was an emergency provision and the authority to maintain the increase was to expire in June of 1936.

In January of 1936 the railroads asked the Interstate Commerce Commission to continue the emergency rate increases without an expiration date. They argued that even though traffic was increasing and their revenues were improving the emergency increases were still needed. The shippers protested that the emergency which had existed when the rates were granted was no longer prevalent. The Commission granted a six-month extension of the rates and told railroads to begin to revise their rates to more perfectly fit the economic conditions.<sup>36</sup> The extension of

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<sup>34</sup>United States, Interstate Commerce Commission, Reports, "Emergency Freight Charges, 1935," CCVIII (1935), 62.

<sup>35</sup>Ibid., p. 63.

<sup>36</sup>United States, Interstate Commerce Commission, Reports, "Emergency Freight Charges, 1935," CCXV (1936), 437-474.

the emergency rates and the increased traffic which accompanied the general economic upturn of 1936 allowed the railroads to earn a profit for the first time since 1931. In October of 1936 the railroads again asked the Commission to extend the increase. The petition was denied and the emergency rate increases were allowed to expire on December 31, 1936.<sup>37</sup>

Before the expiration of the emergency increase, the railroads filed a petition asking for rate increases on certain commodities. The Commission concluded after hearing the evidence in the early part of 1937 that railroads were in need of added revenue in order to provide them with what might be considered a fair rate of return. Certain increases on heavy basic commodities such as coal, iron, lime and steel were allowed.

According to Business Week, the Commission in its 10 to 1 decision "virtually invited the roads to ask again for rate readjustments."<sup>38</sup> In the latter part of 1937 the railroads asked for such rate adjustments. Specifically they wanted to increase rates by 15%. The purpose of the increase was to provide added revenue so that the railroads could meet increased operating costs.

The argument against rate increases, especially on agricultural products was summarized by the Secretary of Agriculture. He said that farm prices and farm income were still quite low although they had shown some improvement. He testified that farm prices were likely to remain low for the next two or three years. It was his opinion that the expected increase in revenues of the railroads was likely to be offset by a loss

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<sup>37</sup>United States, Interstate Commerce Commission, Reports, "Emergency Freight Charges, 1935," CCXIX (1936), 565-575.

<sup>38</sup>"Railroads Want New Rate Boosts," Business Week, October 30, 1937, p. 14.

in the volume of traffic similar to the loss experienced in the period 1929 to 1932. He stated that the department had found in regard to this period that:

(1) the bulk of the decline in retail prices during the 1929-33 industrial depression was taken out of the farmer's share of the consumer's dollar; (2) the movement of farm products by rail was reduced because of the tendency of farmers and shippers, faced with low returns, to seek more advantageous means of transportation or to utilize their own labor in sending their product to market; (3) the tendency of farmers to become self-sufficing and to shift from crop production for direct sale to production of feed crops to be sold indirectly as livestock and livestock products, also resulted in a lower volume of farm products for transportation by rail; and (4) the regional balances in farm production were dislocated and the short-haul movement of farm products by truck was accentuated by the low returns in surplus-producing areas distant from markets, which, with relatively high transportation costs, tended to increase production in areas adjacent to consuming centers.<sup>39</sup>

The Secretary concluded that a policy of inflexible rates should be replaced by a policy of flexible rates which would allow rates to be lower in depression periods and higher in times of prosperity. He stated that an increase in rates would tend to add to the existing disparity between commodity prices and freight rates and tend to retard recovery.

The Commission, after studying the testimony in the case, decided that a rate increase by the railroads was justified. The increase granted was 10% except on all agricultural commodities, which were increased by 5% and on the heavy basic commodities, which had been increased in the previous case. The increased rates became effective in March, 1938.

The next general rate increase was requested by railroads in 1941, shortly after the entry of the United States into World War II. The

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<sup>39</sup>United States, Interstate Commerce Commission, Reports, "Fifteen Per Cent Case, 1937-38," CCXXVI (1938), 91-92.

railroads claimed that added revenues were needed to meet increased operating expenses and to allow them to better aid in the war effort. They specifically asked for a 10% increase on all commodities including products of agriculture but excluding coal, coke, and iron ore. The railroads pointed out that total farm income was estimated at \$11.2 billion in 1941 compared with \$9.1 billion for 1940. They asserted that agricultural commodities should receive the same increases as other commodities.

Most of the controversy in the case was not over whether or not rates should be increased but over the amount and method of increase. Most protestants felt that a general increase was needed but a 10% increase was too much. There was considerable controversy regarding the application of a general percentage increase. The long-haul shippers argued that this method placed them at a disadvantage since their rates would go up disproportionately more than short-haul shipper's. They argued that a flat increase should be applied. On the other hand the short-haul shipper regarded his shorter distance as an advantage of location to which he was entitled.

The increases which were finally granted by the Commission on different commodities ranged from 3% on agricultural commodities to 6% on others. The authority to maintain the rate increases was to expire six months after the end of the war.<sup>40</sup>

The above increases became effective in March, 1942. Then in December of that year, various shippers and public officials filed a petition asking the Interstate Commerce Commission to reopen the Ex Parte

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<sup>40</sup>United States, Interstate Commerce Commission, Reports, "Increased Railway Rates, Fares and Charges, 1942," CCXLVIII (1942), 545-625.



148 case and remove all or part of the emergency increase granted. The petitioners argued that railroad revenues had improved substantially since the increase was granted due to increased traffic and that the emergency increases were no longer needed by the railroads. They also argued that the increased rates were in direct opposition to the established governmental policy of preventing inflation during the war. The Commission decided that the emergency rates were no longer needed and cancelled them for the remainder of 1943.<sup>41</sup> The Commission reaffirmed its decision on three different occasions during the remainder of the war and subsequently suspended the increased rates until six months after the end of the war.<sup>42</sup>

#### Post-War Rate Increases

From the end of the war until 1961 there were eight major rate cases. All of these involved substantial rate increases by railroads. The result of these rate increases was that freight rates increased by more than 100% during this period. In every case, the main contention of the railroads was that increased operating costs and reduced traffic due to competition were lowering their revenues and in turn causing a low rate of return on investment. Prior to World War II the railroads seemed quite aware of the danger of losing traffic to their competitors and they appeared to be at least attempting to meet that competition. However, during the war railroads were relied upon heavily and traffic reached an all-time high. It appears that for a time following the war railroads

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<sup>41</sup>United States, Interstate Commerce Commission, Reports, "Increased Railway Rates, Fares and Charges, 1942," CCLV (1943), 402-405.

<sup>42</sup>United States, Interstate Commerce Commission, Reports, "Increased Railway Rates, Fares and Charges, 1942," CCLIX (1944), 159-200.



chose to more or less rely on rate increases to maintain adequate revenues. This is not to say that railroads were not aware of the advances that were taking place in other modes of transportation but it means that they were simply unresponsive to the changing conditions. Nor did all of the fault lie with the railroads, since Congress and the Interstate Commerce Commission were not willing to alter the regulatory structure in order to allow railroads to compete effectively. No doubt many of the rate increases were warranted by the general inflation of prices, but there is reason to believe that if the railroads had been more alert in lowering operating costs and adjusting rates to meet competition they could have provided more efficient transportation at a lower cost while avoiding many of the problems which began to plague them in the latter part of the 1950's. This problem will be discussed further in a later section of this paper. The main purpose of the following discussion is to examine the rate increases which were instigated after World War II and point out some of the major issues involved in the various rate cases.

In April, 1946, the railroads petitioned the Interstate Commerce Commission for a 25% rate increase. The Commission stated that an immediate increase was needed and granted a general increase as authorized in Ex Parte 148. This amounted to a 3% increase on agricultural commodities and a 6% on all others. The Commission authorized an additional 5% increase for all eastern railroads. This was a temporary increase to be in effect only until the Commission could hear the evidence on the general rate increase.

After further hearings in the case, the Interstate Commerce Commission granted a general 20% increase on rates which was to be applied in lieu of the temporary increase authorized earlier. There were some excep-

tions to the 20% increase and one was grain and grain products. The increase authorized there was 15% with the railroads instructed to restore market and gateway equalizations to adhere to rate break principles in effect. These adjusted rates were to reflect a 15% increase as nearly as possible.<sup>43</sup> The average rate increase in the case when exceptions were considered was about 17.6%. This was generally more than railroad men had expected and placed them in a position to earn moderate profits in 1946.<sup>44</sup>

The next general rate case to be considered by the Interstate Commerce Commission was Ex Parte 166 which was brought about by a petition by the railroads on July 3, 1947 for a general increase of 38% within the eastern territories and 28% in the western and southern territories. The Commission immediately granted a temporary 10% increase in all rates.<sup>45</sup>

The hearings of the case continued with the railroads demonstrating that labor costs and costs of materials had risen significantly since the end of the war. The Commission declared that the railroads needed added revenues urgently and granted a 20% temporary increase to take the place of the increase granted in October, 1947.<sup>46</sup>

The hearings in the case continued until August of 1948 when the final decision in the case was made. The Commission stated that the greatest need for revenues existed among eastern railroads with the least

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<sup>43</sup>United States, Interstate Commerce Commission, Reports, "Increased Railway Rates, Fares and Charges, 1946," CCLXVI (1946), 537-623.

<sup>44</sup>"Rails Welcome Rate Boost," Business Week, December 14, 1946, pp. 19-20.

<sup>45</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1947," CCLXIX (1947), 35-36.

<sup>46</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1947," CCLXX (1948), 81-82.

need for added revenues existing among the western railroads. Therefore, the rate increases granted varied in the different districts. The rate increases were: (1) 25% within the eastern district, (2) 25% within the southern district, (3) 25% from, to and within zone 1 of the western trunk line territory, (4) 20% within the rest of the western district, (5) 25% between southern and western territories and between them and eastern territories, (6) 22½% between zone 1 of western trunk line territory and rest of western district.<sup>47</sup> These increases were in lieu of all previous increases granted in this case.

Just six days after the final decision in Ex Parte 166 the railroads filed a petition asking for an increase in rates of 13% with some exceptions. They stated that operating costs were rising and they would not be able to earn a fair rate of return on their investment in the future at current freight rates. The Commission again decided that rate increases were needed urgently and granted various rate increases averaging 5.2% for the country as a whole.<sup>48</sup> The hearings in this case, which was known as Ex Parte 168, continued until August 2, 1949 when the Interstate Commerce Commission concluded the case. The rate increases authorized to replace the earlier increases were: (1) 10% within the eastern district, (2) 10% within the southern district, (3) 9% within zone 1 of the western trunk line territory, (4) 8% within the rest of the western territory, (5) 10% between eastern and southern territories, (6) 9% between territories other than eastern and southern.<sup>49</sup>

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<sup>47</sup>Ibid., pp. 403-472.

<sup>48</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1948," CCLXXII (1948), 695-790.

<sup>49</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1948," CCLXXVI (1949), 9-122.

After obtaining increases amounting to about 50% since June, 1946, the railroads did not ask for further increases until January of 1951. At that time in Ex Parte 175, the railroads asked for a 6% increase. The Commission accepted a motion by the railroads to grant emergency increases and authorized an increase varying from 2 to 4% in the different districts.<sup>50</sup> The record was held open for further evidence and the railroads filed an amendment to the original petition asking for a 15% increase instead of the original 6%.

In the further hearings midwestern, eastern, and western shippers of grain appeared to request that if any increase was granted it be made uniform throughout the nation. They testified that any inequality of freight rate increases on grain for the different districts would tend to disrupt the established grain marketing structure.

The case continued through May of 1952 with another interim increase granted in mid-1951.<sup>51</sup> The final increase granted in the case was 15%, with the increase on grain and grain products being 12%. The increase was in lieu of earlier rate increases in Ex Parte 175 and was to be applied as a surcharge which would expire on February 28, 1954.<sup>52</sup> However, the Commission in 1955 made the rate increase a permanent part of the rate structure.

Shortly after the previous rate increases were made permanent, the railroads filed tariffs with the Commission providing for a general 7%

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<sup>50</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1951," CCLXXX (1951), 179-198.

<sup>51</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1951," CCLXXXI (1951), 557-649.

<sup>52</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1951," CCLXXXIV (1952), 589-673.



increase in rates. The tariffs were to become effective on February 25, 1956 unless suspended by the Commission. The Interstate Commerce Commission issued an order authorizing a 6% increase in rates with some exceptions. Among those exceptions were carload rates on grain which could be increased by 5%. The rate increase became effective on March 7, 1956. The Commission, however, continued to conduct hearings on the case, called Ex Parte 196, until May 7.

In these hearings the grain interests (merchandisers, boards of trade, farmer cooperatives, millers, elevator men, etc.) for the first time in the previous flurry of rate increases, protested vigorously against any increases in rates on grain. In the past they had generally appeared only to ask the Interstate Commerce Commission to maintain gateway and port equalizations and to make increases across the nation uniform on grain and grain products. They appeared in this case to protest any increase at all. The grain interests argued that grain traffic was bearing a disproportionate share of the transportation burden and to substantiate this they pointed out that car-mile earnings on grain and grain products had increased by 25.2% since 1948 while the average increase of all commodities had been only 10%. They asserted also that the economic conditions of agriculture would not permit a rate increase. They illustrated by pointing to the fall in grain prices from the 1947-49 average to the 1955 price. Finally, the grain interests argued that a rate increase would result in sufficient diversion of grain from railroads to trucks and barges so that the railroads would experience a net loss in revenue rather than a net gain. They introduced statistics illustrating the recent increase in truck and barge grain traffic and took the position that railroad rate increases had led to the increased competition from other carriers.



The railroads conceded that there was some diversion of grain traffic to trucks and barges, but they argued that much of it was due to their inability to provide cars. They also stated that regardless of the rate level there would be some diversion to other carriers, but even with some loss of traffic they would still realize additional revenues under the proposed increases.

After considering the evidence presented in the hearings the Interstate Commerce Commission reaffirmed its earlier decision to allow an increase of 6% with some exceptions.<sup>53</sup>

In the latter part of 1956 the railroads again asked the Interstate Commerce Commission for rate increases to cover swelling costs of operation. These increases were again vigorously opposed by shippers, but the Commission stated that the railroads urgently needed the rate increases to maintain revenues. Therefore, the Commission authorized rate increases in the different territories ranging from 9 to 14%. The increase authorized on grain and grain products in all territories was 9%.<sup>54</sup>

In Ex Parte 206 the Interstate Commerce Commission stated that it was clear that, by the end of 1957, the railroads would be faced with further increased costs resulting from a rise in the pay roll tax rate, wage increases stemming from a cost-of-living adjustment based on the Consumer Price Index, and increases in the price of materials. The Commission said that when these increases occurred it would entertain a motion to authorize further moderate increases in rates to meet the added

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<sup>53</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1956," CCXCVIII (1956), 310-316.

<sup>54</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, Eastern, Western, and Southern Territories, 1956," CCC (1957), 633-711.

costs of operation. The Commission suggested further that consideration should be given to ways of increasing rates other than a general horizontal increase. The percentage increase is the approach that railroads had used for a good many years when a general increase in revenue was needed.

On December 23, 1957, the railroads petitioned the Interstate Commerce Commission in Ex Parte 212 to permit schedules incorporating selective rate increases to become effective on February 1, 1958 (later postponed to February 15). The Commission allowed most of the increases to become effective but initiated an investigation to determine the reasonableness of the increases. The rate adjustments proposed were generally percentage increases with a specified minimum or maximum flat rate that could be applied. For example, the increase on grain and grain products was 3% subject to a minimum increase of .5¢ per 100 pounds.<sup>55</sup> The use of this type of increase meant that the disadvantage of a percentage increase to long-haul shippers could be eliminated to a certain extent. The selective method of increasing rates also allowed the railroads to make rate increases that would be less likely to cause a diversion of their traffic to other carriers. This indicated that the railroads were becoming more aware of the inroads of their competitors and that they were beginning to attempt to make adjustments to meet that competition.

After further study of the proposed increases, the Interstate Commerce Commission permitted them to remain in effect with a few minor revisions.

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<sup>55</sup>United States, Interstate Commerce Commission, Reports, "Increased Freight Rates, 1958," CCCII (1958), 665-700.

In 1961 the railroads once again asked the Interstate Commerce Commission for rate increases. In this case they again proposed specific flat increases on different products instead of a general percentage increase. This case was called Ex Parte 223. Although the railroads had already started to recognize the need of meeting competition from other carriers, the apparent viewpoint of the rail industry, as in previous cases, was that rate increases would produce enough extra revenue to offset the loss in traffic. Even before the increase was proposed, many railroads had begun making piecemeal rate reductions between points where competition was strongest. Undoubtedly the railroads believed that if they could get the general level of rates high enough, then they could make reductions in competitive situations in order to maintain their traffic.

The increase proposed and approved on grain and grain products was .5¢ per hundred on all rates of 65¢ or less and 1¢ per hundred on all rates of more than 65¢. This was a fairly small increase, but it was enough to further weaken the railroads' competitive position and allow trucks to move even more rapidly into grain traffic.

The foregoing has been a brief discussion of the general rate increases by railroads from 1930 to 1961. Table 4 summarizes the rate increases with respect to grain. The time period was divided into two

TABLE 4.--Changes in freight rates on grain, 1930-1961<sup>a</sup>

Effective Date	Increase
Aug 1, 1931	Rate Structure Investigation, Part VII, grain in the western district-Interstate Commerce Commission prescribed specific rates, mostly reductions.

TABLE 4.--Continued

Effective Date	Increase	
Oct 22, 1934 <sup>b</sup>		Further hearings in grain rate structure investigation, rates reduced less than previously authorized
Mar 18, 1938	5%	Ex Parte 123, increase applies to all grain and grain products
Mar 18, 1942	3%	Ex Parte 148, increase was granted for the length of the war on all agricultural commodities
Apr 6, 1943		The above increase was cancelled for the remainder of 1943, the increase was subsequently suspended until six months after the end of the war
July 1, 1946	3%	Ex Parte 162, the same temporary increase applied on all traffic, an additional 5% increase was granted to railroads in the eastern district
Jan 1, 1947	15%	Ex Parte 162 continued, increase applied to all traffic in all districts and replaced the previous increase in Ex Parte 162
Oct 13, 1947	10%	Ex Parte 166, temporary increase on all traffic
Jan 5, 1948	20%	Ex Parte 166, another temporary increase to replace previous increase granted in this case
Aug 21, 1948	25%	Within the eastern district
	25%	within the southern district
	25%	from, to, and within zone 1 of western line territory
	20%	within the rest of the western district
	25%	between southern and western territories and between those two and the eastern territories
	22½%	between zone 1 of western trunk line territory and the rest of the western district
		Final decision in Ex Parte 166-replaced temporary increases granted earlier
Jan 11, 1949	6%	Within the eastern district
	6%	within the southern district
	5%	within zone 1 of the western trunk line territory

TABLE 4.--Continued

Effective Date	Increase	
	4% 6% 5%	within the rest of the western district between the eastern and southern districts between districts other than the eastern and southern Ex Parte 168, temporary increase
Sept 1, 1949	10% 10% 9% 8% 10%	Within the eastern district within the southern district within zone 1 of the western trunk line territory within the rest of the western district between the eastern and southern districts
Sept 1, 1949	9%	Between districts other than the eastern and southern final decision in Ex Parte 168, increases replace those granted previously
Apr 4, 1951	2%	Ex Parte 175, applied as temporary increase on grain and grain products in all territories
Aug 28, 1951	6%	Ex Parte 175 continued, temporary increase to replace earlier increase
June 1, 1952	12%	Ex Parte 175, final increase to replace all previous temporary increases in this case
Mar 7, 1956	5%	Ex Parte 196, increase applied on carload rates of grain and grain products in all districts
Dec 28, 1956	5%	Ex Parte 206, increase applied on grain in eastern and western districts only, temporary increase
Feb 4, 1957		The same increase as above was extended to southern district
Aug 6, 1957	9%	Ex Parte 206, final increase to replace all temporary increases granted previously in this case
Feb 15, 1958	3%	Ex Parte 212, there was a minimum increase of .5¢ on proportional rates and increase applied only to railroads in the western and eastern districts with some specified competitive adjustments exempt from increase



TABLE 4.--Continued


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Effective Date	Increase
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Oct 24, 1960	Ex Parte 223, increase of .5¢ on rates of 65¢ or less and 1¢ on rates greater than 65¢
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<sup>a</sup>Compiled from various Interstate Commerce Commission Reports foot-noted earlier in this paper.

<sup>b</sup>Indicates date decided by Interstate Commerce Commission where effective date was not available.

parts in order to analyze the increases. The first period was one of unusual economic conditions with the country going through a serious depression and a world war. Although, several rate increases were granted during this period the railroads were not particularly prosperous. Motor trucks were just beginning to develop as a competitor for railroad traffic during this period. Table 5 gives the index numbers of railroad freight rates on wheat as computed by the Agricultural Marketing Service and published in the Marketing and Transportation Situation. It is seen that the rates were relatively stable from 1930 to 1945 in spite of the fact that several general increases were granted. This was probably due to the fact that the railroads did not take all of the increases authorized or in some cases reduced rates in order to meet increased competition from motor and water carriers. Another reason is that only two rate increases applied to agricultural commodities--one in 1938 and the other in 1942.

The railroads were generally quite interested in meeting the competition by such actions prior to the war. It is interesting to note that while the freight rates on wheat were fairly stable, the price of wheat

TABLE 5.--Index numbers of railroad freight rates on wheat, 1930-1960  
(1947-49 = 100)<sup>a</sup>

Year Beginning July	Index	Year Beginning July	Index
1930	75	1946	76
1931	72	1947	87
1932	75	1948	103
1933	75	1949	110
1934	75	1950	112
1935	72	1951	115
1936	71	1952	123
1937	72	1953	126
1938	75	1954	126
1939	75	1955	126
1940	75	1956	132
1941	76	1957	140
1942	77	1958	144
1943	75	1959	142
1944	75	1960	140
1945	75		

<sup>a</sup>United States Department of Agriculture, Agricultural Marketing Service, The Marketing and Transportation Situation, March, 1949, p. 8.

was quite low, especially until 1940. The following table illustrates the price of wheat, the rail freight rate from Brewster, Kansas to Kansas City and the ratio of the price of wheat to the freight rate. The average ratio of price to freight rates for 1924-1929 was 10.5 so the ratio during 1930-1940 was well below the normal.

The economic conditions of the country from 1946 to 1960 were also somewhat unusual. The country experienced a post-war boom which extended well into the 1950's including the Korean Conflict. Immediately after the war the railroads began asking for rate increases to make up for increased operating costs. From 1946 until 1960 the Interstate Commerce Commission was almost continuously involved in hearings over proposed rate increases by railroads. As a result freight rates increased steadily from 1946 to 1960 as shown by the freight rate index for wheat in Table 5. The index

indicates that rail rates on wheat declined slightly from 1958 to 1960. This was probably due to the piecemeal rate reductions which railroads began to make after 1958 to halt the rapid diversion of grain traffic to trucks and barges.

TABLE 6.--Comparison of prices of wheat at Kansas City, and rail freight rates from Brewster, Kansas, 1930-1945<sup>a</sup>

Year beginning July	Average price per bushel, Kansas City	Rail freight rates per bushel from Brewster, Kansas to Kansas City	Ratio of price to rate
	<u>Cents</u>	<u>Cents</u>	
1930	76	12.3	6.2
1931	47	12.1	3.9
1932	51	12.3	4.1
1933	88	12.3	7.2
1934	98	12.3	8.0
1935	105	12.6	8.3
1936	121	12.6	9.6
1937	111	12.8	8.7
1938	70	13.2	5.3
1939	74	13.2	5.6
1940	82	13.2	6.2
1941	112	13.3	8.4
1942	126	13.4	9.4
1943	145	13.2	11.0
1944	156	13.2	11.8
1945	160	13.2	12.1

<sup>a</sup>United States Department of Agriculture, Agricultural Marketing Service, The Marketing and Transportation Situation, April, 1950, p.8.

## CHAPTER IV

## COMPETITION FOR RAILROAD TRAFFIC

## Rapid Expansion of Truck Transportation

For almost one hundred years the railroads were the most important means of inland transportation in the country. In 1920, the total volume of intercity freight traffic, excluding coastwise and intercoastal shipping, was 500 billion ton-miles. The railroads hauled 84% or about 420 billion ton-miles; inland waterways handled 15% or 75 billion ton-miles; and motor vehicles hauled less than 1%. In that same year the railroads provided about 85% of the total intercity passenger traffic. There was virtually no intercity transport by motor or air carriers.<sup>56</sup>

After 1920, motor vehicles began to grow rapidly in importance. In passenger travel, automobiles soon became the dominant means of intercity travel. The development of motor trucks as freight competitors was slower but still was quite rapid. In 1925 truck registrations reached 2.4 million, but they were used principally in local operation. At that time it was believed that the main use of trucks would be for local short-hauls to supplement railroad service. The likelihood of any serious loss in traffic to motor trucks was considered quite remote by most railroad men. The Secretary of Agriculture, whose department administered the Federal Highway Act, stated that he could see no likelihood of competition with railroads beyond thirty miles except for household goods and a few exceptional situations.<sup>57</sup> Not until 1928 did the railroads begin to

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<sup>56</sup>Pegrum, Transportation: Economics and Public Policy, p. 31

<sup>57</sup>Ernest W. Williams, Jr., The Regulation of Rail-Motor Rate Competition (New York: Harper and Brothers, 1958), p. 3.

realize that there was a possibility of encountering some substantial loss of traffic to the new competitor.

In 1929 the Interstate Commerce Commission estimated that the railroads handled 74.9% of the total intercity ton-miles while trucks handled 3.2%. Therefore, in the nine year period from 1920 to 1929 the railroad percentage of total intercity ton-miles dropped from 84% to 74.9% while the percentage handled by trucks climbed from less than 1% to 3.2%. These estimates were generally made by the Interstate Commerce Commission from fragmentary data but they serve to illustrate the rapid expansion of motor truck transport and the corresponding decline in the railroad's share of national freight movement. By 1932 truck traffic had grown to 5.9% of total intercity ton-miles, largely at the expense of the railroads. This traffic was predominantly short-haul freight, but it was generally the high class freight from which the largest profits were derived by railroads.

After 1932, the growth of motor carrier traffic in relation to total intercity traffic continued but at a slower pace as Table 7 indicates. In 1938 trucks hauled about 8.2% of the total intercity freight traffic. The percentage increased slightly in 1940 but declined to 6.4% in 1942. During the remainder of the war truck competition was kept down partially because of the difficulty in obtaining equipment and parts necessary to maintain them. By 1948 truck traffic was back on its interrupted pre-war trend, handling 11.1% of the total intercity freight traffic in that year. After 1948 the growth of the motor carrier industry was almost phenomenal. While the railroad's share of freight fell from 61.9% in 1948 to about 46% in 1958, motor carriers increased their share from 11.1% to 22%. This is not to say that the absolute quantity of



traffic handled by railroads declined. In fact, the total volume of rail freight increased from 420 billion ton-miles in 1920 to 596 billion in 1959. However, in this same time period, the total volume of intercity freight traffic more than doubled from 500 billion ton-miles to over 1,300 billion ton-miles. So it is apparent that, even though the railroads improved their position slightly, they were not able to take advantage of the expanded freight traffic of the country.

TABLE 7.--Comparison of railroad and motor carrier percentage share of total intercity freight<sup>a</sup>

Year	Railroad	Truck
	per cent	per cent
1920	84.0	less than 1.0
1929	74.9	3.2
1932	74.3	5.9
1938	65.0	8.2
1940	61.3	10.0
1942	69.5	6.4
1944	68.6	5.4
1946	66.6	9.1
1948	61.9	11.1
1950	56.1	16.3
1952	54.5	17.0
1954	49.5	19.1
1956	48.2	18.7
1958	46.0	22.0

<sup>a</sup>Ernest W. Williams, Jr., The Regulation of Rail-Motor Rate Competition (New York: Harper and Brothers, 1958), p. 4 and James C. Nelson, Railroad Transportation and Public Policy (Washington D.C.: The Brookings Institution, 1959), pp. 10 and 439.

The data in Table 7 show that the railroads lost traffic steadily to motor carriers from 1920 until 1940. During that period the railroads became quite concerned about the loss of traffic and initiated some steps

to meet the competition. The railroads increased their rates relatively little as compared to the period after World War II and in most of the cases they demonstrated their awareness of truck competition. Many railroads published selective rate reductions to meet truck competition in specific situations.

However, during the war the railroads regained much of their traffic and served as the backbone of our nation's transportation system. The increased traffic and revenue of the war years gave the railroads new vigor and confidence. After the war, much of the equipment and trackage of the railroads was in a state of disrepair. The railroads were required to pay out large sums of money to repair and revitalize their roads. At the same time the cost of material and labor was rising. The railroads were in need of added revenue to meet these expenses. In order to obtain the revenues the railroads initiated a series of general rate increases which extended through 1958. All through this period of rate increases the railroads continued to lose traffic to motor carriers.

Each rate increase apparently stimulated the competitors as much as the railroads since motor carrier rates generally follow rail rates. But in 1958 the railroads reached the point in their rate increases where it became apparent that the added revenue of the rate increases was offset by the loss in traffic to competitors. At that time the railroads began to generally take stock of the situation and to vigorously attack the problem. This is probably an oversimplification of the actual situation, since many railroads were actively engaged in attempts to lower operating costs and initiate rate reductions all through the period from 1948 to 1958. There was also a great deal of discussion about the "railroad prob-

lem," but the railroad industry as a whole took little initiative in solving the problem and continued to ask for general rate increases.

When the rail carriers did begin to attack the problem they were met with many difficulties stemming from the regulatory policy of the country. For instance, in many cases the railroads sought to cease operations on unprofitable spur lines, but were not allowed to do so because of the unfavorable effect it would have upon the towns along the lines. In some cases the railroads asked for permission to do away with unprofitable passenger runs but were refused by the Interstate Commerce Commission. The slow and expensive process of litigation before the Commission hampered the railroads and made it difficult for them to initiate rate changes which would permit them to compete most effectively. The country has been experiencing a revolution in its transportation system, and the railroads have been caught at the very center of this turbulent change. The future, no doubt, holds many changes in the policies of railroads, the regulatory agency, and possibly even drastic changes in the marketing structure of the country.

#### The Nature of the Competition

There are several important factors which have aided the motor carriers in their competition with railroads for freight traffic.

The motor carrier industry is one characterized by high direct cost and relatively low overhead, which places it in direct contrast with railroads. Its unit of business is the individual over-the-road truck. Economies of scale seem to be quite modest, so the industry had been characterized by a large number of small operators. Their ability to operate profitably depends on securing a regular flow of traffic reasonably balanced by direction.

When the individual motor carrier enters the business it has no obligation to serve all the points on its route or handle all types of traffic even though it does operate on a common carrier basis within the limits of its intended scope of operation. As a result, the motor carrier is able to enjoy the utmost economy per ton-mile because it is able to concentrate on the class of traffic and length of haul which is most profitable. Moreover, the motor carriers are able to reduce their rates on other classes of items between their operating points in order to achieve the desired volume of traffic. Because of this the motor carriers have often forced the railroads to make rate reductions in traffic in which the trucks had little interest other than for maintaining a balance of freight in each direction.

Motor carriers are not under the same compulsion as railroads to generate a volume of business. They have no fixed plant comparable to the railroads which makes it necessary to strive for load capacity in order to maximize returns. Their owned plant consists of their fleet of motor trucks and trailers and this can be adjusted over fairly short periods to allow for changes in the volume of traffic. On the other hand, the railroads have a large investment in rolling stock and engines which cannot be altered over short periods, thus making it necessary for them to incur the same maintenance costs in periods of low volume as in periods of high volume.

Another characteristic of the motor carrier industry is the large volume of private and contract carriers. Both elements provide a danger to motor common carriers as well as to railroads. Contract carriers generally specialize in carrying certain commodities under contract, although many of them carry a wide variety of freight. Due to their

specialization, they are assured of a fairly stable volume of business under contract. This along with their smaller size, and more lenient tax treatment in many states allows them to operate at lower rates than most common carriers. The contract carriers often quote low minimum rates on backhauls in order to balance their traffic and cover the basic costs of operation. These low rates on backhauls have a tendency to lower common carrier rates.

The situation is much the same for private carriers. The owners may have an imperfect balance in their flow of goods so it becomes profitable for them to quote low rates on backhauls.

Another problem for common carriers is the fact that the shipper may move the largest part of his freight in his own carrier and move the balance by common carrier. This aggravates the common carrier's problems of efficient equipment use since the shipments are generally quite sporadic, and at the same time the more profitable regular traffic has been lost.<sup>58</sup>

Another important factor which has aided motor carrier development has been the construction of thousands of miles of highways across the nation. These highways were built with public funds, although truckers insist that they pay for their share of the roads through the various user taxes which they incur. The recent construction of superhighways with limited access, especially the Interstate system of roads has been a boost to the trucking industry.

These several factors along with many others such as faster service and door-to-door convenience are the things which have allowed motor

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<sup>58</sup>Williams, The Regulation of Rail-Motor Rate Competition, p. 10.



carriers to take over a large part of the country's short-haul traffic. The railroads still maintain their supremacy in long-haul traffic but even there motor carriers have provided some competition.

### Competition for Grain Traffic

Before 1950 it was generally believed that the great bulk of commercial grain traffic was not vulnerable to diversion from railroads to other types of carriers. It was thought that the transportation characteristics of the commodity, plus the advantage of transit arrangements in rail traffic, would confine competitive carriers to local short-haul movements. This belief did not hold true. After about 1950 motor carriers and water borne carriers started to make noticeable inroads into grain transportation.

A study by the Transportation and Facilities Research Division of the Agricultural Marketing Service indicated that the rail share of grain had declined steadily from 1954 to 1958. The study indicated that of the total shipment of grain from country elevators to regions other than North Central states the rail share declined from 39% in 1954 to 26% in 1958. At the same time truck shipment climbed from 58% to 65% and barge shipments rose from 3% to 9%.<sup>59</sup> This indicates that both barge and truck shipments of grain from country elevators increased proportionately more than rail shipments during this time period. Perhaps more important is the increase in the shipment of grain by truck to inland waterways since about one half of all grain shipments are made to these markets. In 1956

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<sup>59</sup>United States Department of Agriculture, Agricultural Marketing Service, Transportation and Facilities Research Division, Grain Transportation in the North Central Region, 1961, p. 52.

23% of all shipments to river markets were by truck, but by 1958 this figure had increased to 27%. This may be due to the growing number of shipments of grain from country elevators to river markets where further shipment is made by barge. Most of these shipments originate within three hundred miles of the markets, although those by rail generally dominated all shipments of over one hundred miles.

In looking at specific markets, it is evident that trucks have made larger increases in some markets than in others. For example, the truck's share of grain shipments received in Kansas City increased from 3% to 8% between 1954 and 1958, while in Minneapolis their share increased from 4% to 19% in the same period, and in Chicago the increase was from 8% to 28%.<sup>60</sup> An Oklahoma study indicated that the truck's share of total grain traffic from country elevators increased from 28.8% in 1958 to 33.6% in 1960. So apparently the trend is quite widespread and continuing.<sup>61</sup> It appears that in 1958 the railroads were still holding their share fairly well in markets receiving predominantly long-haul shipments such as the Kansas City Market, but they were suffering substantial losses at the markets with relatively shorter hauls. This is logical since it is a known fact that the railroads are generally more economical on the longer hauls than trucks. However, large quantities of grain were shipped to the river markets from long distances on backhauls by contract and private carriers.

From 1958 until 1962 the expansion of the motor carrier's share of grain traffic into Kansas City was phenomenal. It was stated earlier that

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<sup>60</sup>Ibid., pp. 39-47.

<sup>61</sup>Adlowe L. Larson and Tom W. Yates, Effect of Motor Trucks on Movement of Wheat in Oklahoma (Stillwater, Oklahoma: Oklahoma State Experiment Station, 1963), p. 5.

most of the trucked grain was moved to river markets to be shipped out by barge. This is due to the fact that grain which does not move into a market by rail must take the flat rate out of the market instead of the lower proportional rate. Therefore, the increases in truck shipments of grain were dependent on the development of barge transportation and vice versa. In 1958, when the rails handled 92% of all grain traffic to Kansas City, they handled 88% of the wheat shipments out of that market during the barge season, which extends from the first of April until the last of November. By 1962 the railroad's share of traffic out of Kansas City during the barge season had fallen to 48.5%. This means that during the eight months of the barging season about 51.5% of the wheat moving into the Kansas City market was shipped by trucks, since it is generally assumed that all wheat shipped out by barges has been brought to the market by truck. This may not necessarily be the case but it does give an indication of the loss of traffic by rails both to barges and trucks. Table 8 shows the changes in barge and rail shipments during the barge

TABLE 8.--Comparison of shipments of wheat from Kansas City during barge season 1955-1962<sup>a</sup>

Barge Season	Barge Shipment Wheat	Rail Shipments of Wheat During Barge Season	Rail Percentage of Total Wheat Traffic
1955	985,400	47,023,200	98.0
1956	3,373,921	42,984,000	93.0
1957	2,968,226	37,261,800	92.5
1958	4,775,430	34,068,600	88.0
1959	5,116,438	25,497,000	83.5
1960	11,970,212	41,596,200	77.5
1961	15,863,425	37,706,680	70.5
1962	28,619,156	26,981,980	48.5

<sup>a</sup>Interview with Mr. Ed. Savage, Traffic Manager for Continental Grain, July 12, 1963

season from 1955 to 1962 and the corresponding rail percentage share of traffic.

There are a number of factors which have influenced the shift from rails to competing carriers. Probably the most important reason has been the continued rise in rail freight rates. Since 1946 rates on grain have increased by more than 100%. The increased rates placed truckers in a position to compete for grain traffic and caused shippers to cast about for cheaper methods of transportation including added use of water transportation as well as motor carriers.

Another major reason has been the relative decline in importance of the transit privilege to shippers as evidenced by the changeover to other modes of transport. It appears that shippers in many cases no longer feel that the transit privilege is worth the added cost of railroad shipment. It may be that the transit privilege is still of major importance for many shipments but means very little for other shipments such as exports. Therefore, the shippers are simply taking advantage of the lower cost of truck and water borne transportation in instances where it is possible while utilizing railroad transportation for the remaining shipments.

Another factor which has been important in the relative decline in rail traffic has been poor service; such as box car shortages, inadequate switching facilities, and greater damage claims in railroad shipments. The increased demand by truckers for backhauls at low rates has been an important reason for the switching of country elevators from railroads to trucks.

This is not an extensive coverage of the many factors which have interacted to result in decreasing rail shipments of grain, but these are

the most important reasons. The increased competition between the various carriers of grain has resulted in lowered freight rates for shippers in many cases and will probably result in even lower rates in the future. In order to accomplish the rate reductions, the entire grain marketing structure may experience drastic changes. In fact, several rate changes have already had the effect of altering the market structure and it appears that more revisions are yet to come.



## CHAPTER V

## THE RAILROAD POSITION IN A COMPETITIVE TRANSPORTATION SYSTEM

As mentioned earlier, for a period of almost one hundred years the railroads held monopolistic control of inland transportation in the United States. Inland waterways accounted for some movement, but due to the limited number of navigable waterways, water carriers were not able to provide the amount of transportation needed by the growing country.

The railroads began their climb to supremacy in 1830; attained the pinnacle in about 1920 and held the position without challenge until 1930 when motor carrier competition first began to take form. During the period from 1887, when the first law regulating railroads was passed, until 1930 a system of regulation evolved which was quite satisfactory for the heretofore monopolistic railroad industry. However, after the advent of motor vehicles as a competitive means of inland transportation, the railroads were left with something less than monopoly power. There was scattered recognition of this fact both by railroads and by the Interstate Commerce Commission, but the regulatory process continued to regard the railroads as a monopoly. Even many railroad men believed that railroad transportation was and would continue to be the most important means of transportation in the country. The attitude of railroads in this respect was mentioned in the section on rate increases. The fact remains that the railroads did not continue to enjoy a monopoly position, and they were gradually forced to this realization during the 1950's as they watched their traffic being diverted to trucks and barges. The extent of this diversion was considered in the previous section. The purpose of the following discussion is to consider the effects of the changing trans-

portation system on railroads and to examine the steps taken by railroads in adjusting to the "new" transportation system.

### Legitimate Complaints of Railroads

Thus far the discussion has considered the loss of traffic by railroads; the failure of their management to recognize changing conditions; and their failure to make operating and rate adjustments to meet the change. There are a number of factors outside the control of the railroads themselves which have contributed markedly to the decline in railroad traffic. These factors should now be considered in order to round out the discussion on the current position of railroads.

It was mentioned earlier that the regulation of railroads was initiated because of their monopoly position in the late nineteenth and early twentieth century. However, the railroads did not maintain their monopoly. The motor carrier industry grew up almost overnight to become a strong competitor of railroads. On the other hand, the regulatory policy of the country, just as the railroad's operating policy, changed much too slowly. The rate system is based on a theory of charging what the traffic will bear without regard to the cost of service. This was the method used in the "old days" when railroads were the prime carriers, but it is not a sound theory on which to base rates in a time when there is strong competition from other carriers. The industry needs a broad general revision of its rate structure taking into consideration cost factors, competition from other carriers especially private and contract motor carriers, and the maintenance of the marketing structure as nearly as possible. This certainly is a big order, but if the railroad problem is to be solved these are the problems which will have to be considered.

Due to the early philosophy of regulation, which has influenced the Interstate Commerce Commission and national transportation laws down to the present day, the railroads are closely supervised and often operating policies are essentially dictated by the Commission. The railroads should have more freedom in suspending operation of unprofitable lines and adjusting rates. This would allow them to compete effectively for the traffic which they can move most economically while tending to relegate to other carriers the traffic which they can handle most efficiently.

By the same token, the laws and procedures which the railroads must follow in applying adjustments are far outdated. Often the railroads are required to expend much time and money in hearings before the Interstate Commerce Commission. They are met with further delays while the Commission decides the case. Often these delays extend for years. In the meantime the railroads must continue to operate under the old conditions while economic factors dictate a change.

Some railroad men argue that the railroads have been relegated to the position of a "stand-by" industry because of the archaic rules of regulation by which they are governed. The argument is that shippers often use other means of transport for the bulk of their high rated shipments and ask railroads to handle the overflow and the lower rated shipments. Alfred E. Perlman, President of the New York Central Railroad, advocates a system of discriminatory rates whereby the railroads would be allowed to grant lower rates to large volume shippers. This would allow railroads to develop a core of loyal customers and obtain a better balance of traffic. He states that:

Nobody complains about a power company charging a large user of electricity a lower rate than it charges a small or occasional user, any more than anyone complains because the

price of one box of soap in the supermarket is 25 cents and you can get two boxes for 49 cents. Yet we are told, should we adopt the same principle, we are discriminating against the small business!<sup>62</sup>

However, the importance of transportation service in the pricing system and competitive structure of many industries may preclude such an approach. Since the location of plants in many industries is dependent to a great extent on the established railroad rate structures, such a policy might cause drastic change in plant locations. The reason is that large shippers would be granted lower rates and smaller shippers might be required to relocate closer to the market in order to compete. The question then becomes whether it is more important to maintain an efficient railroad system or to continue present policies and avoid disrupting industrial locations. It should be noted that in recent years there has already been a strong tendency toward relocation of industries in the United States. Perhaps this is the time to begin a long-term program to adopt railroad rate policies to present economic conditions.

The subsidizing of competing forms of transport compounds the railroad problem. Although there is considerable controversy over the extent of subsidization of highway, air, and water carriers, it is generally conceded that all receive some public aid.<sup>63</sup> These subsidies place railroads at an unfair disadvantage in competing with the subsidized carriers. The effects of subsidies are to hold rates at an artificially low level for the subsidized carrier, to encourage an uneconomic allocation of traffic, and to stimulate the overexpansion of the subsidized transportation facilities.

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<sup>62</sup>Alfred E. Perlman, "Pricing Problems in the Railroad Industry," Vital Speeches, January 15, 1957, p. 213.

<sup>63</sup>Locklin, Economics of Transportation, p. 831.



The loss of railroad traffic to unregulated carriers was discussed earlier and will only be expanded upon here. One of the biggest problems of railroads recently has been the diversion of agricultural commodities to trucks operating exempt carriers while the railroads are subjected to strict rate regulation. The railroads complain that the inequality should be eliminated either by extending the same regulation to motor carriers or by exempting railroads hauling agricultural commodities. At any rate, there is general agreement among transportation economists that the inequality should be eliminated in the interest of a more efficient transportation system.

President Kennedy, in his transportation message to Congress in 1962, proposed that railroads be exempt from all minimum rate regulation to allow them to compete more effectively with other carriers.<sup>64</sup> However, Congress has not yet taken any formal action and it does not appear likely that the proposal will be adopted. Many observers believe that a repeal of minimum rate regulation would result in a siege of fiercely competitive rate cutting not only between railroads and other carriers but also among railroads themselves.<sup>65</sup> Such a condition might result in discriminatory practices and disruption of the marketing structure characteristic of the early days of railroading before government regulation.

#### The Endeavors of Railroads to Meet Competition

Although it has been stated that railroads were generally inactive in meeting competition from the end of the war until about 1958, this has

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<sup>64</sup>United States Department of Agriculture, Agricultural Marketing Service, The Marketing and Transportation Situation, May, 1962, p. 18.

<sup>65</sup>Interview with Mr. J. S. Chartrand, Transportation Commissioner, Kansas City Board of Trade, July 13, 1963.



not been the case since 1958. In fact, some railroads were busy installing technological improvements to reduce costs before 1958. In early 1957, the New York Central opened a 163 mile electronically regulated stretch of double track between Cleveland and Buffalo. With this new system two men seated at a control panel can control all the traffic between the two points. The new system allows two tracks to do the work of four while increasing the speed of freights from thirty to sixty miles per hour.<sup>66</sup> In that same year the Pennsylvania railroad was in the midst of a program to turn the Pittsburgh freight yard into the nation's most modern electronically controlled freight terminal. Electronic computers were being installed to sort, classify, route, and guide all freight cars from an inclined switching hump to their proper tracks. The system was expected to save the railroad up to 50% in the time for freight cars to clear the yard plus millions in wages paid to yard crews. These are only examples of the technological improvements made by railroads in the late 50's. Since that time numerous other changes have been initiated by railroads in attempts to cut costs, ranging from new labor saving methods of track repair to the introduction of modern efficient rolling stock.

In attempts to meet competition the railroads have resorted to selective rate reductions. By reducing rates between specific points on certain types of shipments the railroads hope to regain old traffic or at least maintain existing levels. For example, in 1959 when the St. Lawrence Seaway was opened the eastern railroads introduced rate reductions on grain in an attempt to meet the added export competition of the Seaway. Shortly thereafter the gulf coast railroads reduced their rates in the same proportion in order to meet the competition.

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<sup>66</sup>"The New Age of Railroads," Time, January 28, 1957, p. 94.

A more recent example of such rate reductions is the lowering of gathering rates on grain to Kansas City from various points in Missouri. This reduction was made effective in June, 1963. According to recent reports from railroads, grain shipments have already improved markedly.

At the present time two railroads in Kansas have proposals before the Western Trunk Line Committee reflecting substantial reductions in grain gathering rates from points in Kansas to Kansas City. There is a good chance that other railroads in Kansas will approve the rates and publish proportional reductions. The rates were first proposed by the Santa Fe in December of 1962 to make their rates competitive with intra-state truck rates which had just been reduced. In July, 1963 the Frisco joined the Santa Fe by proposing proportional rate reductions on its line in Kansas. Table 9 shows comparative rates between truck and railroads, as proposed by the Santa Fe, and the present rail rates from selected points in Kansas to Kansas City. It is seen that the proposed rail rates are generally less than truck rates for the longer hauls, but a little more than truck rates on the short hauls. However, the approval of these rates would make railroads quite competitive with trucks in Kansas.

These "piecemeal" reductions have a tendency to disrupt normal marketing channels, and are generally looked upon with disfavor by most shippers. This is especially true of the grain industry where maintenance of present rate relationships is considered necessary in order to have a free flow of grain through the markets and thus establish representative prices in the various markets. Extensive use of piecemeal reductions could cause many grain shipments to by-pass the major markets in order to take advantage of lower rates. If this diversion reached large propor-

tions the price-making power of the major markets such as Kansas City and Chicago would be seriously impaired.

TABLE 9.--Statement of Kansas intrastate truck rates present and proposed rail rates (In cents per hundred pounds)<sup>a</sup>

Kansas Origins	Wheat Rates via Truck		Wheat Rates via Rail	
	Miles	Rate	Present	Proposed
Abilene	154	18½	34	21
Adams	249	26	35½	26
Caldwell	266	27½	34	24
Cherryvale	152	18½	27½	18½
Coffeyville	171	20	27½	19½
Concordia	199	21½	32½	21
Dodge City	341	33½	39	31½
Elkhart	462	41½	50½	39
Emporia	110	15	27½	17
Garden City	381	36	44½	34½
Great Bend	256	26½	38	28
Hutchinson	219	23½	35½	24
Lawrence	39	9½	21	12
Marion	158	18½	34	21
Rolla	445	40	50½	37½
Scott City	372	35	34½	34½
Ulysses	419	36½	46	36
Wichita	208	22½	34	22½

<sup>a</sup>Interview with Mr. J. S. Chartrand, Transportation Commissioner, Kansas City Board of Trade, July 13, 1963.

Therefore, those in the grain trade advocate that railroads make a general percentage rate reduction in order to meet competition. This reduction could be accomplished by "rolling" the rates back to a previous level, such as the level of rates following Ex Parte 168. This would mean about a 25% reduction in rates could be accomplished while maintaining present rate relationships. Up until the present time the railroads have rejected this idea and have continued to make piecemeal reductions. However, there is hope that in the future the railroads will become aware

of the value of such reductions both in improving their own revenues and in maintaining an orderly grain marketing system.<sup>67</sup>

The railroads have also been experimenting with incentive rates for heavier loading. Under these conditions the railroads offer lower rates for large volume shipments. A good example of this is the proposal by the Southern Railway System to reduce grain rates into the Southeast by as much as 60% on five car shipments in their new "Big John" covered hopper cars. The rates have been approved by the Interstate Commerce Commission and are presently in effect. Under this proposal, there is no transit privilege accorded the grain in shipment and no corresponding low rate is granted on grain products such as flour. Therefore, millers strongly oppose such reductions. They argue that present equal rates on wheat and flour and extensive transit privileges allow mills to be competitive at all points between production and consumption areas. They say that the low bulk rates on wheat without transit will force millers to relocate at the consumption points in order to compete, the reason being that by locating at consumption points the mills could take advantage of low rates on bulk grain. Therefore, mills located in surplus areas such as Kansas would be at a competitive disadvantage due to high transportation costs. This is a good example of the market disruptions being brought about by the selective rate reductions of railroads. However, the lower rates on volume shipments have been fairly successful in increasing the size of hauls, and it may be possible for the railroads to publish acceptable compromise incentive rates for both wheat and flour in order to maintain present mill locations. The trend in railroad equip-

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<sup>67</sup>Interview with Mr. J. S. Chartrand, Transportation Commissioner, Kansas City Board of Trade, July 13, 1963.



ment is toward larger cars and heavier loading in order to make more efficient use of the capital investment.

Along with these endeavors, the railroads are generally making other efforts to strengthen their competitive position. Recently there has been considerable interest in railroad mergers. The carriers feel that by combining two or more closely connected roads they can create a system with an enhanced competitive position. The resulting road is expected to be financially stronger and the operation of the road is ordinarily expected to be more efficient by the combining of routes and elimination of some duplicative services. In some cases the railroads are able to benefit from economies of scale. Mergers are certainly not a panacea for all the railroad ills but in many cases they may be quite beneficial.

Although the railroads lost traffic almost constantly from the end of the war until about 1958, it appears that they have finally become aware of the competitive powers of water and motor carriers. The fallacy of their shortsighted policy of applying horizontal rate increases in order to compensate for loss of traffic has apparently been recognized. The railroads have now adopted a policy of selectively reducing rates to meet particular competitive situations. The number of such reductions has been increasing steadily so that the average level of rates has fallen considerably since 1958. As a result, the railroads have been able to hold their own in some cases but generally the loss of traffic to other carriers continues to be a major problem. The future undoubtedly holds many major adjustments for railroads, but as the Interstate Commerce Commission stated in 1933 when the trucking industry was just beginning to show signs of power "the country is not ready to abandon its rail-



roads."<sup>68</sup> The goal is to readjust and reorganize the railroads as well as their regulatory body so that they more perfectly conform to the economic conditions of today.

<sup>68</sup>United States, Interstate Commerce Commission, Reports, "General Rate Level Investigation, 1933," CXCV (1933), 71.

## SUMMARY

About 1830, the railroads began their climb to supremacy as the major mode of inland transportation in the United States. By 1916 they had reached the peak and were, by far, the dominant means of transportation in the country.

They were able to maintain this position until about 1930 when competition from motor carriers first became significant. From that time until the present the railroads' share of traffic has diminished steadily.

From their earliest development until about 1950, the railroads were considered to be the primary means of transporting grain. Therefore, the structure of the grain marketing system was built around rail freight rates to eastern consuming areas.

The grain rate structure which developed was one which was characterized by "rate breaks" at the major markets such as Kansas City, Chicago, Minneapolis, and St. Louis.

The Interstate Commerce Commission endorsed this method of constructing grain rates in the Rate Structure Investigation, Part VII, and prescribed rates from specific gathering points in the producing states to the major markets. These rates were considered to be fair and non-discriminatory and are the basis of present rail rates.

Between 1930 and 1961 the railroads asked for eleven major rate increases. In most of the cases the railroads were granted some increase by the Interstate Commerce Commission. The adjustments were made in the form of general percentage increases up until 1958. Rate adjustments since that time have been in the form of flat increases.

With each rate increase motor and water competition became stronger. As the railroads' costs went up and their share of the traffic went down, they sought to solve their revenue problems by general rate increases which had the effect of perpetuating their troubles. While the water carriers' percentage share has been fairly stable, the motor carriers have significantly increased their share of freight traffic, and rails have experienced a drastic decline in the percentage of freight handled. This loss has been especially noticeable in grains since 1950.

Thus the transportation system of the country has changed from one characterized by a railroad monopoly in 1920 to one characterized by strong competition between several modes of transport at the present time. Railroad regulatory policy has not changed accordingly. The railroads are still governed by laws and procedures which were developed for a monopolistic industry. The railroads argue that in order for them to compete in the present transport system, they need more freedom in setting rates, changing operating policies, and generally in managing their businesses.

After about 1958, the railroads apparently began to realize that they could not continue to ask for rate increases to offset their loss in traffic. Since that time the railroads have made several gestures which indicate that they are ready to compete for the freight traffic. Many railroads have invested large sums of money in technological improvements to reduce operating costs. Selective rate reductions by railroads have been quite common in areas of strong motor carrier competition in the past few years.

It appears that the changes which have occurred in the transportation system of the country may necessitate major changes in regulatory policy and possibly even some major changes in the marketing structure of

the nation. The pressures of selective rate reductions on grains have already been acknowledged by the grain trade, and steps have been taken to persuade the railroads to maintain the present rate structure. Whether or not the present grain rate structure will be maintained should be determined within the next few years as the railroads continue their campaign to hold and even regain lost traffic.

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CHANGES IN GRAIN FREIGHT RATES, 1930-1961

by

KELLY MAX HARRISON

B. S., Texas Technological College, 1962

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AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the

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This report had two major purposes. The first was to present a general review of the development of rail freight rates on grain in the United States. The second purpose of the Report was to analyze the resulting changes in the transportation system and to examine the factors which influenced those changes with reference to grain and grain products.

The grain rate structure of the United States developed from several basic factors. The first was the characteristic east-west flow of grain by railroad from surplus producing areas to eastern consumption points. The second factor was the evolution of equal rates for grain and grain products, e.g. wheat and flour. The other factor was the granting of transit privileges, whereby, grain could be stopped in transit for storing or processing and then continued on to the destination at the lower through rate.

The resulting rate structure was characterized by "rate breaks" at the major markets with equalization rates between those markets in order to promote the free flow of grains from all producing regions.

This basic rate structure, with some minor modifications by the Interstate Commerce Commission, has remained effective up to the present time. However, the actual rates have been increased by more than 100% since 1930. All but two of the eleven rate increases granted to railroads from 1930 to 1961 were general percentage increases. Such adjustments were supposed to maintain existing rate relationships. Grain men argued that the rate structure was being distorted by the greater proportional increase on long-haul rates than on the shorter hauls. Therefore, the increases granted to railroads in 1958 and 1960 were flat rate increases.

The numerous rate increases sought by railroads from 1930 to 1961 were a boon to the young and rapidly developing motor carrier industry. As rail rates constantly climbed higher, the motor carriers' share of freight steadily grew. Since 1950, the trucks have continuously increased their share of grain handled. Another important factor has been the improvement of barge transportation. The truck-barge combination has taken much of the rail grain traffic in recent years.

The transportation system of today is characterized by strong competition. The result of this competition will, undoubtedly, be lower freight rates to producers and shippers. However, there may be some undesirable repercussions on the grain rate structure.

The railroads have already started making selective rate reductions and lower incentive rates which have a tendency to destroy the historic grain rate pattern. It now appears that more rate reductions are inevitable. The grain trade is making a strong effort to insure that future reductions will be of a character which will maintain present rate relationships.





